

CITY OF LEXINGTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

Prepared by:
C. F. Higgins, Jr., Finance Director

CITY OF LEXINGTON, VIRGINIA
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2008

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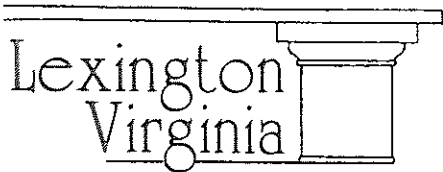
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INTRODUCTORY SECTION



December 1, 2008

The Honorable City Council
City of Lexington, Virginia

The Comprehensive Annual Financial Report (CAFR) of the City of Lexington, Virginia for the fiscal year ended June 30, 2008 is hereby submitted. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the government. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and has been reported in a manner designed to present fairly the financial position and results have been included. Also, additional data is provided in the City Management's Discussion and Analysis of operations of the various funds and financial statements of the government. All disclosures necessary to enable the reader to gain an understanding of the government's financial activities analysis narrative overview are included with this report.

This report has been prepared following the guidelines recommended by the Government Finance Officers Association (GFOA) and the Governmental Accounting Standards Board (GASB). Also, this report is in accordance with uniform financial reporting standards for counties, cities, and towns issued by the Commonwealth of Virginia's Auditor of Public Accounts (APA). Further, this report is in conformity with the provisions of the Single Audit Act of 1996 and U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

This report includes all funds of the City of Lexington including four separate component units. Component units are legally separate entities for which the primary government is financially accountable. The Rockbridge Area Recreation Organization (RARO) provides recreational activities for all age groups in the Rockbridge County area. RARO functions independent of the City and serves under a seven-member board of directors. The City provides financial services to RARO and this report includes RARO as a separate component unit.

A second separate component unit is the Lexington School System that consists of an elementary and middle school. Secondary education is provided jointly by Rockbridge County and the City through a contractual agreement. City Council appoints a five-member school board to administer the City school operations.

A third component unit is the Central Dispatch that provides E-911 dispatch for fire, rescue, and police services in Rockbridge County and both the City of Lexington and Buena Vista. The Rockbridge County Sheriff's department is not directly served under this center. The Central Dispatch serves under an executive director that is appointed by an independent seven-member board. The Central Dispatch regional board includes the City Manager and Police Chief of both cities and the Rockbridge County Administrator, as well as one representative each from the County Firefighters and Rescue Squad Associations.

A fourth component unit is the Regional Tourism Program serving the City of Buena Vista, the City of Lexington, and Rockbridge County. The regional tourism operation serves under an executive director that is appointed by an independent seven-member board. The regional board of directors includes two members appointed by each of the jurisdictions (one of which must be from a tourism related industry) for two year terms. One remaining member is to be appointed from a tourism related business by the six jurisdictional members for a two-year term.

The City provides a full range of municipal services including police, rescue and fire protection, sanitation services, the construction and maintenance of streets and infrastructure, community development/housing rehabilitation services, and support of cultural and recreational activities. In addition to general government services, the City also operates a water and sewer enterprise fund and four previously mentioned separate component units. The City serves as the fiscal agent for the first, third and fourth component units. However, the City services of the Rockbridge Regional Jail, Rockbridge Regional Library, Rockbridge Area Social Services, Maury Service Authority, Central Shenandoah Juvenile Detention Home, Industrial Development Authority and Lexington Volunteer Fire have not met the established criteria for inclusion in the reporting entity, and accordingly are excluded from this report.

Economic Outlook

The City of Lexington is located in the Shenandoah Valley region of central Virginia and is blessed with both historic and natural beauty. These two attributes have helped Lexington to attract thousands of tourists and visitors annually. Two colleges, the Virginia Military Institute and Washington & Lee University, have also been instrumental in the rich cultural and educational heritage of Lexington. The City is ideally located to meet transportation needs, with the junction of interstates I-81 and I-64 just outside the city limits and the intersection of US highway routes 11 and 60 in the middle of the downtown business district.

As a result of an agreement between the City and Rockbridge County, Lexington is precluded from extending its current boundaries through conventional annexation. As compensation for the agreement not to annex, the two governments entered into a revenue sharing agreement based upon annual payments to the City of portions of economic growth related revenues collected by the County. This cooperative agreement

continues to afford revenue growth necessary to meet the City's long-term financial needs, while minimizing property tax rate increases.

The lack of available land for industrial development along with concentrated planning efforts has helped to create Lexington's reputation as a retail and service activity center for Rockbridge County and many surrounding communities. The City continues to look for ways to expand its economic base with limited space and land development capabilities, while focusing on the high quality of life and natural and historic charm to attract clean, environmentally safe, and compatible businesses to the City.

Major Initiatives

For the past year:

The City real estate tax rate decreased from 0.70/100 to 0.60/\$100 of assessed value. Most of this decrease resulted from the increased real estate assessment values up twenty-eight percent for commercial properties and fifty-two percent for residential properties. The City completed a three-year reassessment of real estate in FY 06 with the next four-year reassessment scheduled for FY 10. Due to the slowing of the economy and the housing market, the City opted to delay the reassessment of real estate for one year until FY 10. The FY 08 current real estate tax collections translated to approximately \$57,123 per penny of the tax rate.

The City increased water and sewer rates by twelve and one-half (12.5) percent for all customers beginning July 2007. The City continues to annually increase water and sewer rates to minimize the impact of increased operating and capital costs for its water and sewer operations.

The City designates a two (2) percent transient occupancy tax to generate contribution revenue for the Virginia Horse Center Foundation. The revenue for FY 08 totaled \$68,985 and will be dedicated by the Virginia Horse Center for long-term debt service costs.

Under a joint agreement with Rockbridge County economic development is a primary goal with the objective of bringing selective industrial and high technological growth that will enhance the overall economic vitality of the area. The City is committed to gradual increases of property tax rates, and, when feasible, reduction of tax rates, to provide responsible services to its citizenry while enjoying moderate growth. The City is experiencing an increasing unemployment rate jumping from 5.4 percent last fiscal year to 8.3% in FY 08, presumably impacted by the national and international deep recession.

The City is jointly entering cooperative measures to improve the landscaping, signage, streets, sidewalks, parking, and storm drainage needs as plans are approved for new or renovated businesses within its commercial districts. Recommendations provided from a professional corridor study are providing the City a very good basis for making entranceway corridor improvements.

The City continues to follow a master plan developed by a steering committee to develop a new park and green space area next to its north corridor entranceway. This park project joins an old nature trail and will protect the historic appeal of this area for many years to come. Future plans include development of a pedestrian and bicycle route from both ends of the Veteran's Memorial Bridge across the Maury River to connect the Woods Creek trail to the Chessie Nature trail. Over the past year, the City was once again awarded the designation of Tree City, U.S.A. In 2006, the City was ranked in a Consumer's Report international survey as one of the top six small residential communities perfect for retirees.

For the future:

Lexington has other major capital and infrastructure demands which will need to be addressed in the near future. City Council annually adopts a five-year Capital Improvement Plan in order to prepare to meet these needs. Capital projects estimated to cost \$22.4 MIL over the next five years include traffic signal, bridge, street, sidewalk, and storm drainage improvements, entranceway and corridor improvements, education facility improvements, water and sewer utility line improvements, and recreational parks improvements. Also, the City and County continue construction of a new \$29.3 MIL regional circuit court facility to include a new City owned parking deck that is scheduled to be completed in January 2009.

Long-term debt financing of \$12 MIL in January 2006 will fund a new parking deck in addition to the City's share of an upgraded circuit court facility that will serve both the City and Rockbridge County area. Also, the City has applied for a literary fund loan to obtain funding for a school renovation project estimated to cost \$7.9 MIL to begin in the Spring of 2009.

Presently, more than 46% of the City's real property is tax exempt. Also, competition for retail and business occupancy downtown versus county shopping areas challenges the City to search for additional revenue in order to offset the tax burden placed upon property owners and small businesses. The City Council has worked hard to improve its economic development capability through coordination of effort with Rockbridge County and the Rockbridge Partnership that serves the City and Rockbridge County area. Examples of City Council's efforts for potential economic returns include development of a comprehensive downtown needs assessment and study, the completion of an interstate interchange and Route 60 corridor study with Rockbridge County, and the establishment of a joint industrial development authority to support a regional industrial development program with Rockbridge County. Last, the City completed a comprehensive parking study for its central business district in 2006.

The City continues to participate in a regional economic development marketing effort provided by the combined efforts of five cities, five counties, and James Madison University located in the Shenandoah Valley area. The City supports a jointly operated HVAC training center with Rockbridge County and the City of Buena Vista. This center prepares employees and area residents for meeting the skilled employment needs of

several HVAC industries located in the Rockbridge County area.

Efforts by the Rockbridge Partnership to recruit business to the region should concentrate on Lexington's high quality of living and its ability to provide utilities, public safety services, and available infrastructures suitable to smaller and preferably high-technology industries. The Rockbridge County area currently has land, buildings, and an employment base suitable to a business technology park environment, and the City feels development efforts for the area would be best suited to this approach.

Budgetary and Internal Controls

The City administration is responsible for establishing and maintaining internal controls designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the USA. The internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Compliance: As a recipient of federal and state financial assistance, the government of Lexington is also responsible for ensuring that adequate internal controls are in place to provide compliance with applicable laws and regulations related to those programs. These internal controls are subject to periodic evaluation by the City administration.

As a part of the government's single audit described earlier, tests are made to determine the adequacy of the internal controls, including that portion related to intergovernmental financial assistance programs, as well as to determine that the government has complied with applicable laws and regulations. The results of the City's single audit for the year ended June 30, 2008 can be found in the Single Audit section of this CAFR.

Budgeting Controls: Lexington maintains strict budgetary controls, the objective of which is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, capital projects fund, enterprise fund and the separate school component unit, are included in the annual appropriated budget. The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund except for the four legally separate discretely presented component units. The governing body of each of these component units approves, recommends and controls the annual appropriations made for their respective budgets. City Council approves annual appropriations and quarterly amends appropriations for all funds except for the Central Dispatch, RARO, and the Regional Tourism component units.

Cash Management: The City maintains an aggressive Cash Management Program with the objectives of increasing non-tax revenues of the city government. The primary goals of the Cash Management Program are to maximize the amount of cash available, both to meet daily needs and to increase the amount available for investment, and to earn the maximum return on cash invested.

Interest earnings of \$331,532 for governmental funds were equivalent to 5.8 cents on the City real estate tax rate for the fiscal year ended June 30, 2008. Additional interest earnings of \$304,978 received on the recent general obligation bonds issued in January 2006 will be used to support increased construction costs for the regional circuit court capital project.

Risk Management: The City is exposed to a variety of accidental losses and has established a risk management strategy that attempts to minimize losses and the carrying costs of insurance.

The City has a public safety committee continuously review City policy and procedure for public safety. Risk control techniques have been established to reasonably assure that the City's employees are aware of their responsibilities regarding personal safety and property loss exposures related to their duties. In a similar manner, risk control techniques have been established to reduce possible personal injuries to employees and citizens, and losses to property owned or under the control of the City. Furthermore, supervisory personnel are held responsible for monitoring risk control techniques on an operational basis.

The primary technique used for risk financing is the purchase of adequate insurance coverage from a State liability self-insurance program. The City insurance coverages include policies for business automobile, legal, public official, law enforcement, property damage, and general liability exposures of risk. Also, boiler and machinery, data processing, miscellaneous volunteer portable equipment, contractors' equipment, builders' risk, crime, and difference in condition risk categories are defined and protected by coverages recommended by the VML insurance advisors. The City participates in the State self-insurance program for workers' compensation benefits. A separate commercial carrier provides workers' compensation coverage for the volunteer life saving and first-aid crew. Also, separate coverages for the volunteer fire department and lifesaving and first aid crew provides general liability and non-owned vehicle liability insurance protection.

Other Information

Independent Audit: State statutes require an annual audit by independent certified public accountants. This annual audit was performed by Robinson, Farmer, Cox, Associates. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the Federal Single Audit Act of 1984 and the Single Audit Amendments of 1996, and the related OMB Circular A-133. The auditors' report on the basic financial statements is included in the financial section of this

report. The auditors' reports related specifically to the single audit are included in the Single Audit Section.

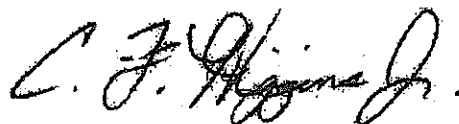
Award: As previously indicated, the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Lexington for its comprehensive annual financial report for the fiscal years ended June 30, 1994 through June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, the government published an easily readable and efficiently organized comprehensive annual financial report, whose contents conformed to program standards. This report satisfied both accounting principles generally accepted in the USA and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgments: The preparation of this report on a timely basis could not be accomplished without the efficiency and dedication of the staffs of the Finance Department, Commissioner of Revenue, and the Office of the Treasurer. I would like to express our sincere appreciation to each employee of these departments. Appreciation is also in order for the firm of Robinson, Farmer, Cox, Associates. Last, I would like to thank the Mayor, members of the City Council, and the rest of City administration for their interest and support in planning and conducting the financial operations of the City in a responsive and progressive manner.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. F. Higgins, Jr.", with a stylized flourish at the end.

C. F. Higgins, Jr.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Lexington
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Charles S. Cox

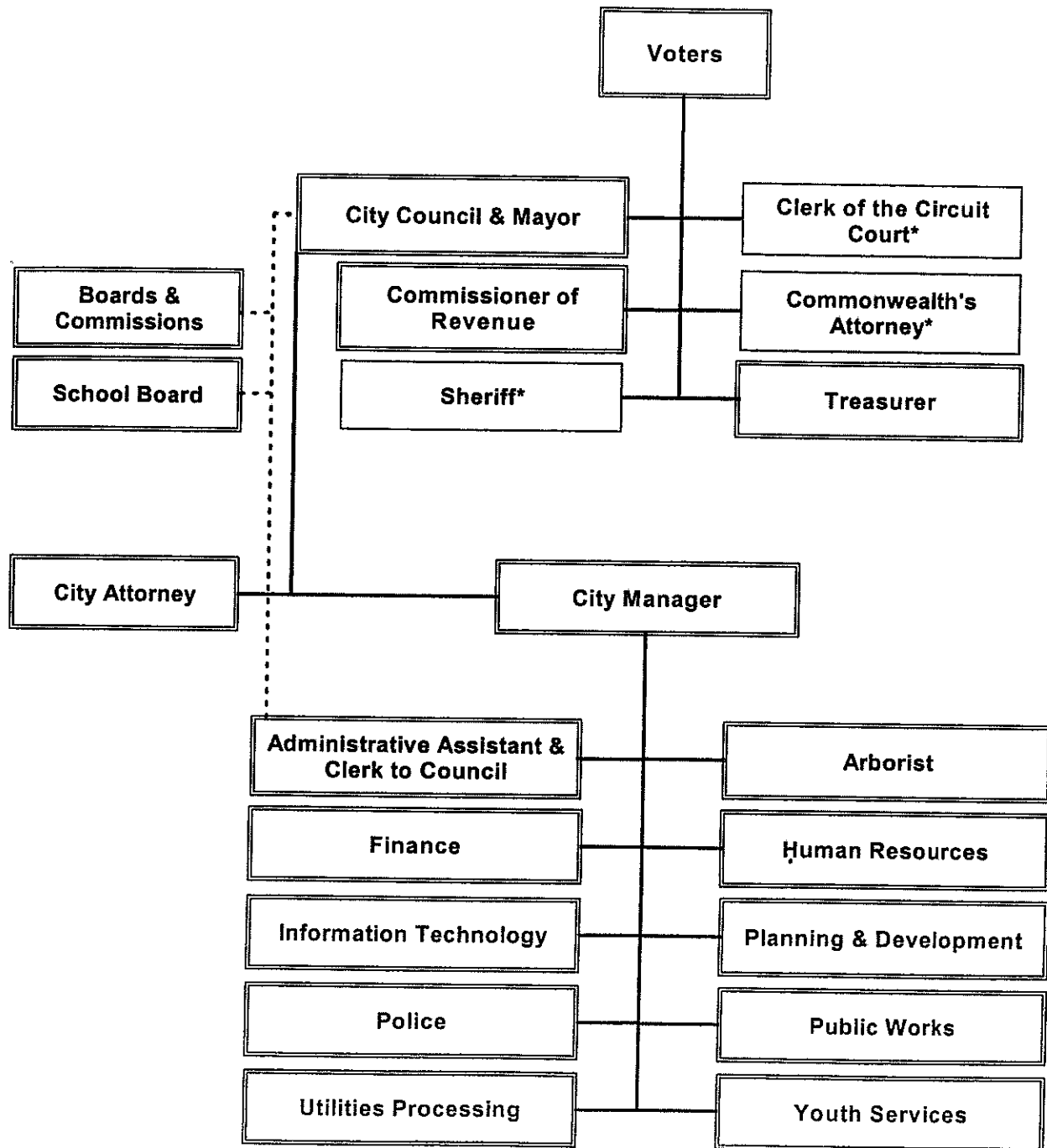
President

Jeffrey R. Emen

Executive Director

CITY OF LEXINGTON

Organizational Chart



*Shared with County

.....Appointing authority only

CITY OF LEXINGTON, VIRGINIA

JUNE 30, 2008

CITY COUNCIL

John Knapp, Mayor
Timothy Golden, Vice-Mayor
Mimi Elrod
Frank Friedman
Jim Gianniny
Jack Page
Ron Smith

SCHOOL BOARD

Leslie Straughan, Chairperson
Dr. Kirk Luder, Vice Chair
Marilyn Alexander
Aaron Bruce
Dr. James Hentz

CITY OFFICIALS

T. Jon Ellestad
Pat DeLaney
Karen T. Roundy
C. F. Higgins, Jr.
Lawrence A. Mann
Steven E. Crowder
David A. Woody
Daniel E. Lyons

City Manager
City Treasurer
Commissioner of Revenue
Finance Director
City Attorney
Chief of Police
Director of Public Works
Superintendent of Schools

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

THE HONORABLE MEMBERS OF CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2008 which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Lexington, Virginia's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008 on our consideration of the City of Lexington, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the schedule of Pension Funding Progress, and the other required supplementary information as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lexington, Virginia's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robinson, Farmer, Co. Associates

Christiansburg, Virginia
October 20, 2008

Management's Discussion and Analysis

As management of the City of Lexington, we offer readers of the City of Lexington's financial statements this narrative overview and analysis of the financial activities of the City of Lexington for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The City of Lexington's governmental funds total revenues of \$14,324,884 are less than total expenditures of \$20,173,797 by \$5,848,913. The City purchased \$171,876 of equipment replacement items from fund balance designated for future equipment replacement needs. The City contributed \$3,043,993 as the City's share of expenses for a new regional courthouse. A new public parking deck needed for the regional courthouse incurred expenses for \$3,519,004. The regional courthouse and parking deck expenses are paid for from bond proceeds issued in January 2006. Also, the City appropriated \$18,300 toward the construction of a vault for an underground utilities project to support the new regional courthouse under construction and \$25,000 to support a new bath house for the City's new indoor pool.
- The assets of the City of Lexington exceeded its liabilities at the close of the most recent fiscal year by \$19,636,526 (*net assets*). A total of \$4,779,307 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, unreserved fund balance undesignated for the general fund is \$7,687,217 or 59% of total general fund expenditures for \$13,064,875 in the year ended June 30, 2008.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Lexington's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Lexington's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or declining.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are

reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lexington that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general and financial administration, judicial administration, public safety, public works, health and welfare, education, parks, recreation and cultural, community development, and nondepartmental. The business-type activity of the City is a water and sewer operation managed for the Maury Service Authority with the City responsible for water and sewer distribution to its customers.

The government-wide financial statements include not only the City of Lexington itself (known as the *primary government*), but also a legally separate school district, a regional tourism program, a central dispatch operation, and joint recreation activities. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lexington, like other state and local governments, uses a fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Lexington maintains seven individual governmental funds. Information is

presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, the cemetery trust fund, and the discretely presented component School Board unit, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Lexington adopts an annual appropriated budget for its general fund, special revenue fund, and capital projects fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget.

Proprietary funds. The City of Lexington maintains one proprietary fund. An *enterprise fund* is used to report the functions presented as *business-type activities* in the government-wide financial statements. The City uses the enterprise fund to account for its water and sewer utility fund. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the City's water and sewer services.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *supplementary information* in the statistical section.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lexington, assets exceeded liabilities by \$19,636,526 at the close of the most recent fiscal year.

A portion of the City's net assets (24 percent) reflects its unrestricted net assets of \$4,779,307. The City's investment in capital assets (e.g., land, buildings, improvements, machinery, equipment, infrastructure, and construction in progress), less any related debt used to acquire those assets that are still outstanding, reflects \$13,422,966. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The City's governmental activities net assets decreased \$583,697 for the fiscal year ending June 30, 2008. A good portion of this decrease (\$254,326) is attributable to the City funding a new public works administrative office building on a pay-as-you-go basis

from the general fund unrestricted fund balance. Also, the City purchased a new taxes receivable and revenue accounting software package, along with a cashiering package for \$148,750 using its unrestricted fund balance from the prior fiscal year ending June 30, 2007. Last, the City retired \$100,000 of debt service costs using funds from the general fund unrestricted fund balance since the total debt service costs are scheduled to drop off by this same amount in the ensuing fiscal year ending June 30, 2009.

City of Lexington's Summary Statement of Net Assets
as of June 30, 2008 and 2007
(In Thousands)

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current & other assets	\$ 15,654	\$ 21,478	\$ 1,190	\$ 1,121	\$ 16,844	\$ 22,599	\$ 963	\$ 1,044
Capital assets	<u>16,677</u>	<u>12,585</u>	<u>1,855</u>	<u>1,857</u>	<u>18,532</u>	<u>14,442</u>	<u>2,792</u>	<u>2,713</u>
Total assets	<u>\$ 32,331</u>	<u>\$ 34,063</u>	<u>\$ 3,045</u>	<u>\$ 2,978</u>	<u>\$ 35,376</u>	<u>\$ 37,041</u>	<u>\$ 3,755</u>	<u>\$ 3,757</u>
Long-term liabilities outstanding	\$ 13,529	\$ 14,522	\$ 99	\$ 278	\$ 13,628	\$ 14,800	\$ 74	\$ 78
Other liabilities	<u>1,538</u>	<u>1,502</u>	<u>573</u>	<u>519</u>	<u>2,111</u>	<u>2,021</u>	<u>629</u>	<u>578</u>
Total liabilities	<u>\$ 15,067</u>	<u>\$ 16,024</u>	<u>\$ 672</u>	<u>\$ 797</u>	<u>\$ 15,739</u>	<u>\$ 16,821</u>	<u>\$ 703</u>	<u>\$ 656</u>
Net assets:								
Invested in capital assets, net of related debt	\$ 11,611	\$ 9,405	\$ 1,812	\$ 1,635	\$ 13,423	\$ 11,040	\$ 2,792	\$ 2,713
Restricted	1,435	1,521	—	—	1,435	1,521	—	—
Unrestricted	<u>4,218</u>	<u>7,113</u>	<u>561</u>	<u>546</u>	<u>4,779</u>	<u>7,659</u>	<u>260</u>	<u>388</u>
Total net assets	<u>\$ 17,264</u>	<u>\$ 18,039</u>	<u>\$ 2,373</u>	<u>\$ 2,181</u>	<u>\$ 19,637</u>	<u>\$ 20,220</u>	<u>\$ 3,052</u>	<u>\$ 3,101</u>

An additional portion of the City's primary government net assets (7 percent) represents resources that are subject to external restrictions on how they may be used. The remaining

balance of the primary government's *unrestricted net assets* (\$4,779,307) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City's primary government is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business like activities.

Governmental activities. Governmental activities for the City's primary government represent 88% of the City's net assets. Over the past fiscal year, the City revenues and expenses for both governmental and business-type activities as well as the School Board component units are as follows:

**City of Lexington's Changes in Net Assets
as of June 30, 2008 and 2007
(In Thousands)**

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:								
Program Revenues:								
Chgs. for svcs. \$	777	\$ 829	\$ 4,669	\$ 4,206	\$ 5,446	\$ 5,035	\$ 229	\$ 227
Operating grants and contributions	1,327	1,332	—	—	1,327	1,332	3,180	3,213
Capital grants and contributions	100	136	—	—	100	136	108	108
General revenues:								
Property taxes	4,141	3,990	—	—	4,141	3,990	—	—
Other taxes	3,078	2,914	—	—	3,078	2,914	—	—
Grants and contributions not restricted to specific programs	638	614	—	—	638	614	—	—
Other	<u>3,792</u>	<u>3,203</u>	<u>—</u>	<u>—</u>	<u>3,792</u>	<u>3,203</u>	<u>2,192</u>	<u>1,897</u>
Total revenues	<u>\$ 13,853</u>	<u>\$13,018</u>	<u>\$ 4,669</u>	<u>\$ 4,206</u>	<u>\$18,522</u>	<u>\$ 17,224</u>	<u>\$ 5,709</u>	<u>\$ 5,445</u>

	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Expenses:								
General Gov't.	\$ 1,299	\$ 1,121	\$ —	\$ —	\$ 1,299	\$ 1,121	\$ —	\$ —
Judicial Admin.	3,125	1,281	—	—	3,125	1,281	—	—
Public Safety	2,317	2,178	—	—	2,317	2,178	—	—
Public Works	2,979	2,362	—	—	2,979	2,362	—	—
Health & Welfare	628	569	—	—	628	569	—	—
Education	2,187	1,893	—	—	2,187	1,893	5,758	5,636
Parks, Rec. & Cultural	719	518	—	—	719	518	—	—
Community Development	759	811	—	—	759	811	—	—
Nondepartmental	—	—	—	—	—	—	—	—
Interest on Debt	615	725	—	—	615	725	—	—
Water & Sewer Utility	<u>—</u>	<u>—</u>	<u>4,477</u>	<u>4,311</u>	<u>4,477</u>	<u>4,311</u>	<u>—</u>	<u>—</u>
Total Expenses	<u>\$ 14,628</u>	<u>\$ 11,458</u>	<u>\$ 4,477</u>	<u>\$ 4,311</u>	<u>\$ 19,105</u>	<u>\$ 15,769</u>	<u>\$ 5,758</u>	<u>\$ 5,636</u>
Changes in net assets	(775)	1,560	192	(105)	(583)	1,455	(49)	(191)
Net assets beginning of year	<u>18,039</u>	<u>16,479</u>	<u>2,181</u>	<u>2,286</u>	<u>20,220</u>	<u>18,765</u>	<u>3,101</u>	<u>3,292</u>
Net assets end of year	<u>\$ 17,264</u>	<u>\$ 18,039</u>	<u>\$ 2,373</u>	<u>\$ 2,181</u>	<u>\$ 19,637</u>	<u>\$ 20,220</u>	<u>\$ 3,052</u>	<u>\$ 3,101</u>

Governmental Revenues:

- Property tax collections are up 6% or \$229,962. The City increased real estate values attained from a reassessment of real estate properties in FY 06. The real estate tax rate was reduced as a result of the reassessment from \$0.70/\$100 of assessed value to \$0.56/\$100 of assessed value. City Council raised the reduced tax rate of \$0.56/\$100 of assessed value to \$0.60/\$100 of assessed value to support the FY 08 budgetary needs.
- Other local taxes are up \$164,085 or 6% for the current fiscal year ending June 30, 2008. The local sales and use taxes are up \$45,291 or 6%. The business license tax collections are up \$55,375 or 10%. Also, the new communications sales and use tax generated \$368,921 for the first full year of collections distributed from the Virginia Department of Taxation. Last, the lodging tax revenue increased \$4,456 or 2% and the meals tax increased \$16,523 or 3%.
- Most local revenue trends indicate the City experienced moderate growth in the local economy.
- The market interest earnings rate of return for investments continue to gradually decrease attributing to a decrease of \$82,623 or 20% from use of money and property. Also, the City received \$304,978 of interest earnings on the City's general obligation bond account that will be used to meet capital expenses for a new regional courthouse and public parking deck.
- The City experienced increased tonnage disposal at the regional landfill decreasing landfill fee revenue by \$73,718 or 33%. The regional landfill disposal cost remained \$23 per ton.
- The City benefitted from Rockbridge County's second half implementation of a five-year reassessment of real estate property values. As a result of the reassessment of real estate property values, the City's \$1,696,618 payment from Rockbridge County to the City following a revenue sharing agreement increased by \$230,549 or 16% compared to last fiscal year's payment of \$1,466,069.
- The City's major governmental sources of revenue are as follows:

	<u>Amount</u>	<u>Percent of Total Revenue</u>
General property taxes	\$ 4,144,128	29%
Other local taxes	3,078,466	21%
Revenue from use of money & property	796,501	6%
Charges for services	777,317	5%
Miscellaneous	2,995,152	21%
Intergovernmental	2,064,332	14%

Governmental Expenses:

- Increases in operational expenses closely paralleled inflation and growth in the demand for basic services. The governmental expenses totaled \$20,173,797 for the fiscal year ending June 30, 2008. The governmental expenses include \$171,876 in equipment replacement expenses from the designated equipment replacement fund balance.
- General government administration expenses increased significantly by \$272,312 or 27%. Most of this increase is attributable to the purchase of a new taxes receivable and revenue accounting software package along with a cashiering module for \$148,750.
- The primary government's education expenses increased \$293,748 or 16% from \$1,892,922 in FY 07 to \$2,186,670 in FY 08. City schools received less intergovernmental revenue for the current biennium requiring increased local fund support.

- Judicial administration expenses include \$3,043,993 in contractual expenditures for the City's share of expenses for a new regional circuit court facility.
- Public safety expenses are down \$253,873 or 9% from \$2,717,099 in FY 07 to \$2,463,227 in FY 08. All of this decrease is the result of the City's purchasing fewer expensive public safety vehicle replacement items. In FY 07, the City completed paying for a second fire pumper truck for a cost of \$343,588. Also, in FY 07 a police cruiser was purchased for \$21,847. In FY 08, the City only purchased two police cruisers for a cost of \$42,944. The Police Department added one full-time police officer, increasing its law enforcement efforts to a total of sixteen (16) full-time police officers.
- Public works expenses are up \$2,937,925 or 79% from \$3,713,454 in FY 07 to \$6,651,379 in FY 08. This increase is attributable to additional construction in progress costs of \$3,519,004 for a new parking deck facility next to a new regional circuit court building. Also, Public Works capital expenses included the completion of a new administrative office building for a cost of \$254,326. In FY 07, the land was purchased for \$100,556 and the construction in progress cost \$26,000. A total of \$128,932 in equipment replacement purchases provided a one ton pickup truck, a dump truck, a chemical spreader, and a brush truck.
- Parks, recreation, and cultural expenses are down \$85,378 or 12% from \$685,231 in FY 07 to \$599,853 in FY 08. In FY 07, the City completed a new concrete abutment/overlook project next to the Maury River Dam for a cost of \$158,601. In FY 08, an adjustment to the concrete abutment/overlook project cost an additional \$55,182. Also, other planned improvements to a new public park cost an additional \$47,491 for mostly architectural engineering services that was added to construction in progress for restoration of an old historical house.

Business-type activities. Business-type activities contribute to the City of Lexington's net assets by \$2,372,961 accounting for 12% of the total primary government net assets. The City increased water and sewer rates by 12.5% to support cash flow needs for both operating and capital expenses of the water and sewer enterprise fund. Total revenues of \$4,669,046 exceeded total expenses of \$4,473,461 by \$195,585 or 4% resulting in an increase in net assets.

Other significant items to note include:

- Two sewer line upgrades for \$83,137 are included as capital expenses for FY 08.
- Electrical costs increased by \$31,428 or 11%.

Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$13,157,900, a decrease of \$5,849,834 in comparison with the prior year. A total of \$219,291 is reserved for the City's future General Fund equipment replacement purchases. The City reserved fire department funds totaling \$196,906 and first aid funds totaling

\$119,508 to be used exclusively for the specific needs of the fire department or first aid subject to City Council's appropriation. A total of \$3,020,980 is reserved for the carryover of capital projects to include \$2,821,346 to support the City's share of costs for a new regional circuit court complex. A total of \$11,723,647 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for cemetery maintenance.

The general fund is the chief operating fund of the City of Lexington. At the end of the current fiscal year, unreserved fund balance of the general fund was \$8,690,276, an increase of \$116,882 in comparison with the prior year. The entire increase is attributable to the City volunteer fire and first-aid departments depositing reserve funds that are to be used exclusively for each department's specific needs, subject to City Council's appropriation upon the department's request. The City's property taxes exceeded estimated revenues by \$247,228 and other local taxes contributed an additional \$148,181 in excess of anticipated revenues. Also, the City received \$74,883 of excess building permit revenue along with excess interest earnings on investments for \$369,407. As a measure of the adequacy of this fund balance, it may be useful to compare unreserved fund balance to total fund expenditures and other uses of financing sources. Unreserved fund balance represents 62% or more than seven months worth of total general fund expenditures and other uses of financing sources.

The City annually updates a five-year capital improvement plan and appropriates the funds necessary to support the ensuing fiscal year's capital projects. Capital projects for the water and sewer enterprise fund and the separate component units of the school, central dispatch, regional tourism, and recreation organization funds are appropriated within each respective fund. However, the City capital projects dependent upon general fund financial resources are appropriated in a separate capital projects governmental fund.

At the end of the current fiscal year, unreserved fund balance of the capital projects fund was \$3,033,371, a decrease of \$5,878,655. The City expenses for a new regional court complex along with a new public parking deck attributed for the majority of the decrease in the fund balance as the City uses the bond proceeds issued to support this project. Also, the City completed the construction of a new public works administrative office building for \$254,326.

Proprietary funds. The City's *proprietary fund* provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the utility fund (water and sewer services) at the end of the year amounted to \$560,797, an increase of \$14,754 or 3% in comparison with the prior year. Other factors concerning the finances of the proprietary fund have already been addressed in the discussion of the City's business-type activities.

Governmental Fund Budgetary Highlights

Differences between the original budget of \$12,981,707 and the final amended budget of \$24,631,254 reflects an increase in appropriation for \$11,649,547. Items of significance that are worthy to note are as follows:

- City Council carried over from FY 07 to FY 08 \$10,432,697 for ongoing projects or activities that could not be completed by June 30, 2007. Most of the carryover was for capital projects. Particularly, the regional courthouse complex and parking deck project carried over for

\$8,488,583.

- The Treasurer and Commissioner of Revenue offices purchased a new taxes receivable and revenue accounting software package along with a cashiering module for \$148,750 to improve operating efficiency.
- Under Public Safety the City set up a new department for first aid reserve funds and appropriated \$15,000 as of November 1, 2007. This new department allows miscellaneous and contribution funds received by the volunteer first aid and life saving crew to be appropriated and expended exclusively for first aid departmental needs.
- Public Works division of expenses added \$18,300 for the installation of an underground vault to serve the new regional courthouse and parking deck capital projects along with City plans to install underground utilities for the street that will serve the new regional court complex.
- The City provided an additional \$10,000 emergency payment to support operating expenses of a nonprofit organization that provides City residents with disabilities valuable employment and training opportunities. This appropriation increased funding under the health, education, and welfare division of expenditures.
- Under leisure services the City contributed \$25,000 to support bath house improvements at the City's new indoor pool.
- The City received \$12,200 in contribution to support rain garden projects designed to improve water restoration efforts along a City creek. Also, the planning department received a state water quality improvement grant to support rain garden project efforts along this same creek that flows throughout the City near parks and walkways enjoyed by City residents as well as visitors desiring outdoor activities.
- The capital projects fund needed an additional appropriation of \$51,000 from unrestricted fund balance to complete the new public works administrative office building. Also, an amendment for \$895,759 provided additional funding for the regional courthouse complex construction project. Prior fiscal year interest earnings on the 2006 general obligation bond account and a building permit fee earned for this capital project provided the necessary funding for this amendment.

Capital Asset and Debt Administration

Capital assets. Governmental fund capital asset additions for \$4,819,783 included equipment replacement items for \$171,876. The equipment replacement items included two police cruisers and for public works a chemical spreader, pickup truck, dump truck, and brush truck. Also, the City had construction in progress' costs of \$47,490 for a public park and \$3,519,004 for a public parking deck. Other significant acquisitions included the completion of a new public works administrative office building at a cost of \$259,000, an adjustment to the overlook/abutment project at a public park for a cost of \$55,182, and a contribution from a nonprofit organization of a new indoor pool for \$600,000. The separate component unit School Fund reflects \$275,060 for construction in progress costs for a middle school renovation project.

City of Lexington's Capital Assets
(net of depreciation in thousands)

	<u>Primary Government</u>				<u>Component Units</u>			
	<u>Governmental activities</u>		<u>Business-type activities</u>		<u>Total Primary Gov't</u>		<u>School Board Component Unit</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Land	\$ 1,993	\$ 1,993	\$ —	\$ —	\$ 1,993	\$ 1,993	\$ 5	\$ 5
Buildings	3,410	3,253	—	—	3,410	3,253	2,356	2,497
Improvements other than buildings	844	297	151	159	995	456	—	—
Infrastructure	3,058	3,101	1,482	1,454	4,540	4,555	—	—
Machinery & Equip.	2,436	2,545	222	244	2,658	2,789	156	211
Construction in Progress	4,936	1,396	—	—	4,936	1,396	275	—
Totals	<u>\$ 16,677</u>	<u>\$12,585</u>	<u>\$ 1,855</u>	<u>\$ 1,857</u>	<u>\$18,532</u>	<u>\$ 14,442</u>	<u>\$2,792</u>	<u>\$ 2,713</u>

Additional information on the City of Lexington's capital assets can be found in Note 11 to the financial statements.

Long-term debt. The City issued \$12,000,000 in general obligation bonds on January 5, 2006 to fund the construction of a regional circuit court complex. As of June 30, 2008, a total of \$3,526,351 inclusive of interest earnings remains in a separate bond account. At the end of the current fiscal year, the City of Lexington had total bonded debt outstanding of \$13,365,152. All of the City's debt is backed by the full faith and credit of the government.

City of Lexington's Outstanding Debt
General Obligation Bonds

	<u>2008</u>	<u>2007</u>
Governmental activities	\$ 13,322,292	\$ 14,317,241
Business-type activities	42,806	221,423
TOTAL	<u>\$ 13,365,098</u>	<u>\$ 14,538,664</u>

The City's total general obligation debt decreased by \$1,173,512 or 8% during the current fiscal year. The City maintains an "A1" rating from Moody's for general obligation debt. State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the City of Lexington is \$60,244,584 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City of Lexington's long-term debt can be found in Note 7 and 8 to the financial statements. Also, additional information can be found in the statistical section under Tables 12 through 15.

Economic Factors and Next Year's Budgets and Rates

As of June 2008, the unemployment rate for the City of Lexington is 8.3%. This exceeds the United States average unemployment rate of 5.7%, and the state's average rate of 4.2%.

During the current fiscal year, unreserved fund balance in the general fund increased to \$8,663,276. The City of Lexington has appropriated \$1,183,200 of this amount for spending in the 2009 fiscal year budget. It is intended that this use of available fund balance will minimize the need to raise taxes or charges for services during the 2009 fiscal year.

The water and sewer utility fund rates were increased 5.0% for the 2009 budget year. These rate increases are necessary to meet inflationary cost increases as the City's large consumers continue to conserve on consumption.

Contacting the City's Financial Management

This financial report is designed to provide a general overview of the City of Lexington's finances for all those with an interest in the government's finances. Questions concerning any of the information should be addressed to the Office of the Finance Director, P. O. Box 922, City of Lexington, Virginia 24450.

BASIC FINANCIAL STATEMENTS

City of Lexington, Virginia
Statement of Net Assets
June 30, 2008

	Primary Government					Component Units				
	Governmental Activities		Business-Type Activities		Total	Rockbridge				Regional Tourism
						School Board	Central Dispatch	Area Recreation	Organization	
ASSETS										
Cash and cash equivalents	\$ -	\$ -	\$ 216,955	\$ 216,955	\$ 216,955	\$ 723,838	\$ 16,715	\$ -	\$ -	\$ 212,220
Cash in custody of others	3,529,899	-	-	-	3,529,899	-	-	-	-	-
Investments	8,426,167	-	-	-	8,426,167	-	-	-	-	-
Receivables (net of allowance for uncollectibles):										
Taxes receivable	769,399	-	-	-	769,399	-	-	-	-	-
Accounts receivable	252,562	-	972,590	-	1,225,152	-	130,938	-	35,348	209
Due from component unit	30,633	-	-	-	30,633	-	-	-	-	-
Due from other governmental units	812,676	-	-	-	812,676	238,816	19,940	-	24,616	1,244
Prepaid expenses	163,804	-	-	-	163,804	-	-	-	-	-
Deferred charges	234,218	-	-	-	234,218	-	-	-	-	-
Restricted assets:										
Temporarily restricted:										
Cash and cash equivalents	-	-	-	-	-	-	-	-	22,515	-
Permanently restricted:										
Cash and cash equivalents	254,347	-	-	-	254,347	-	-	-	-	-
Investments	1,179,906	-	-	-	1,179,906	-	-	-	-	-
Capital assets (net of accumulated depreciation):										
Land	1,992,532	-	-	-	1,992,532	4,550	-	-	-	-
Buildings	3,410,583	-	-	-	3,410,583	2,356,799	-	-	-	-
Improvements other than buildings	843,926	-	151,455	-	995,381	-	-	-	-	-
Machinery and equipment	2,435,641	-	221,753	-	2,657,394	155,986	169,326	-	-	2,597
Infrastructure	3,058,339	-	1,481,762	-	4,540,101	-	-	-	-	-
Construction in progress	4,936,077	-	-	-	4,936,077	275,060	-	-	-	-
Total assets	\$ 32,330,709	\$ 3,044,515	\$ 3,044,515	\$ 3,044,515	\$ 35,375,224	\$ 3,755,049	\$ 336,919	\$ 82,479	\$ 216,270	\$ 216,270
LIABILITIES										
Accounts payable	\$ 1,059,608	\$ 541,649	\$ 1,601,257	\$ 1,601,257	\$ 204,922	\$ 204,922	\$ 11,864	\$ 4,466	\$ 9,450	\$ 9,450
Payroll liabilities	339,656	-	-	-	339,656	35,748	-	-	-	-
Cash overdraft	32,146	-	-	-	32,146	-	-	-	-	-
Contracts payable	-	-	-	-	-	354,059	-	-	-	-
Accrued interest payable	45,613	-	-	-	45,613	-	-	-	-	-
Due to primary government	-	-	-	-	-	-	-	-	30,633	-
Due to other governmental units	-	-	-	-	-	-	-	6,832	-	-
Unearned revenue	56,562	-	-	-	56,562	33,900	-	-	-	-
Deposits held in escrow	-	30,443	-	-	30,443	-	-	-	-	-
Deferred grant revenue	-	-	-	-	-	-	-	-	-	-
Long-term liabilities:										
Due within one year	4,122	-	-	-	4,122	-	-	-	-	-
Due in more than one year	710,073	48,472	758,545	758,545	7,412	2,674	2,003	2,003	1,407	1,407
Total liabilities	12,819,364	50,990	12,870,354	12,870,354	66,709	24,064	18,026	18,026	12,662	12,662
Due in more than one year	\$ 15,067,144	\$ 671,554	\$ 15,738,698	\$ 15,738,698	\$ 702,750	\$ 45,434	\$ 55,128	\$ 55,128	\$ 23,519	\$ 23,519
NET ASSETS										
Invested in capital assets, net of related debt	\$ 11,610,802	\$ 1,812,164	\$ 13,422,966	\$ 13,422,966	\$ 2,792,395	\$ 169,326	\$ -	\$ -	\$ -	\$ 2,597
Restricted for:										
Pickral Memorial - temporarily restricted	-	-	-	-	-	-	-	-	22,515	-
Perpetual care - permanently restricted	1,434,253	-	1,434,253	1,434,253	-	-	-	-	-	-
Unrestricted (deficit)	4,218,510	560,797	4,779,307	4,779,307	259,904	122,159	4,836	4,836	190,154	190,154
Total net assets	\$ 17,263,565	\$ 2,372,961	\$ 19,636,526	\$ 19,636,526	\$ 3,052,299	\$ 291,485	\$ 27,351	\$ 27,351	\$ 192,751	\$ 192,751

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Activities
For the Year Ended June 30, 2008

		Net (Expense) Revenue and Changes in Net Assets									
Functions/Programs	Expenses	Program Revenues			Primary Government		Component Units				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	School Board	Central Dispatch	Area Recreation Organization	Regional Tourism
PRIMARY GOVERNMENT:											
Governmental activities:											
General government administration	\$ 1,298,817	\$ 52,318	\$ 200,559	\$ -	\$ (1,045,940)	\$ -	\$ (1,045,940)	\$ -	\$ -	\$ -	\$ -
Judicial administration	3,252,299	106,274	46,261	-	(3,099,764)	-	(3,099,764)	-	-	-	-
Public safety	2,425,397	385,941	263,285	-	(1,776,171)	-	(1,776,171)	-	-	-	-
Public works	3,004,657	349,021	588,541	-	(2,067,095)	-	(2,067,095)	-	-	-	-
Health and welfare	627,921	3,050	205,847	-	(419,024)	-	(419,024)	-	-	-	-
Education	2,186,670	-	-	-	(2,186,670)	-	(2,186,670)	-	-	-	-
Parks, recreation, and cultural	671,952	93,198	5,000	-	(573,754)	-	(573,754)	-	-	-	-
Community development	759,200	1,884	17,072	100,251	(639,993)	-	(639,993)	-	-	-	-
Interest on long-term debt	615,572	-	-	-	(615,572)	-	(615,572)	-	-	-	-
Total governmental activities	\$ 14,842,485	\$ 991,686	\$ 1,326,565	\$ 100,251	\$ (12,423,983)	\$ -	\$ (12,423,983)	\$ -	\$ -	\$ -	\$ -
Business-type activities:											
Utility Fund	\$ 4,477,467	\$ 4,669,046	\$ -	\$ -	\$ -	\$ 191,579	\$ 191,579	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 19,319,952	\$ 5,660,732	\$ 1,326,565	\$ 100,251	\$ (12,423,983)	\$ 191,579	\$ (12,232,404)	\$ -	\$ -	\$ -	\$ -
COMPONENT UNITS:											
School Board	\$ 5,758,120	\$ 229,039	\$ 3,180,484	\$ 107,865	\$ -	\$ -	\$ -	\$ (2,240,732)	\$ -	\$ -	\$ -
Central Dispatch	363,300	-	159,949	-	-	-	-	-	(203,351)	-	-
Rockbridge Area Recreation Organization	231,569	114,651	-	-	-	-	-	-	-	(116,918)	-
Regional Tourism	70,408	12,519	1,727	-	-	-	-	-	-	-	(56,162)
Total component units	\$ 6,423,397	\$ 356,209	\$ 3,342,160	\$ 107,865	\$ -	\$ -	\$ -	\$ (2,240,732)	\$ (203,351)	\$ (116,918)	\$ (56,162)
General revenues:											
General property taxes	\$ -	\$ -	\$ -	\$ -	\$ 4,141,071	\$ -	\$ 4,141,071	\$ -	\$ -	\$ -	\$ -
Other local taxes:											
Local sales and use taxes	-	-	-	-	794,444	-	794,444	-	-	-	-
Consumers' utility taxes	-	-	-	-	310,248	-	310,248	-	-	-	-
Business license taxes	-	-	-	-	607,520	-	607,520	-	-	-	-
Restaurant food taxes	-	-	-	-	596,602	-	596,602	-	-	-	-
Hotel and motel room taxes	-	-	-	-	207,005	-	207,005	-	-	-	-
Communications taxes	-	-	-	-	368,921	-	368,921	-	-	-	-
Other local taxes	-	-	-	-	193,726	-	193,726	-	-	-	-
Unrestricted revenues from use of money and property	-	-	-	-	796,501	-	796,501	4,896	814	934	-
Miscellaneous	-	-	-	-	2,995,152	-	2,995,152	164	-	23,958	2,922
Payments from the City of Lexington	-	-	-	-	-	-	-	2,186,670	162,408	80,972	161,508
Grants and contributions not restricted to specific programs	-	-	-	-	637,517	-	637,517	-	-	-	-
Total general revenues	\$ 11,648,707	\$ -	\$ -	\$ -	\$ 11,648,707	\$ -	\$ 11,648,707	\$ 2,191,730	\$ 163,222	\$ 105,864	\$ 164,430
Change in net assets	\$ (775,276)	\$ 191,579	\$ (583,697)	\$ -	\$ (775,276)	\$ 191,579	\$ (583,697)	\$ (49,002)	\$ (40,129)	\$ (11,054)	\$ 108,268
Net assets - beginning	\$ 18,038,841	\$ 2,181,382	\$ 20,220,223	\$ -	\$ 18,038,841	\$ 2,181,382	\$ 20,220,223	\$ 3,101,301	\$ 331,614	\$ 38,405	\$ 84,483
Net assets - ending	\$ 17,263,565	\$ 2,372,961	\$ 19,636,526	\$ -	\$ 17,263,565	\$ 2,372,961	\$ 19,636,526	\$ 3,052,299	\$ 291,485	\$ 27,351	\$ 192,751

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Balance Sheet
Governmental Funds
June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
ASSETS				
Cash in custody of others	\$ -	\$ 3,529,899	\$ -	\$ 3,529,899
Investments	8,426,167	-	-	8,426,167
Receivables (net of allowance for uncollectibles):				
Taxes receivable	769,399	-	-	769,399
Accounts receivable	252,562	-	-	252,562
Due from component unit	30,633	-	-	30,633
Due from other governmental units	756,571	56,105	-	812,676
Prepaid items	163,804	-	-	163,804
Restricted assets:				
Permanently restricted:				
Cash and cash equivalents	-	-	254,347	254,347
Investments	-	-	1,179,906	1,179,906
Total assets	<u>\$ 10,399,136</u>	<u>\$ 3,586,004</u>	<u>\$ 1,434,253</u>	<u>\$ 15,419,393</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 506,975	\$ 552,633	\$ -	\$ 1,059,608
Payroll liabilities	339,656	-	-	339,656
Cash overdraft	32,146	-	-	32,146
Unearned revenue	825,961	-	-	825,961
Deferred grant revenue	4,122	-	-	4,122
Total liabilities	<u>\$ 1,708,860</u>	<u>\$ 552,633</u>	<u>\$ -</u>	<u>\$ 2,261,493</u>
Fund balances:				
Reserved for:				
Perpetual care	\$ -	\$ -	\$ 1,434,253	\$ 1,434,253
Unreserved:				
Designated for equipment replacement	219,291	-	-	219,291
Designated for first aid and fire dept.	316,414	-	-	316,414
Designated for carryovers	467,354	3,020,980	-	3,488,334
Undesignated, reported in:				
General fund	7,687,217	-	-	7,687,217
Capital projects funds	-	12,391	-	12,391
Total fund balances	<u>\$ 8,690,276</u>	<u>\$ 3,033,371</u>	<u>\$ 1,434,253</u>	<u>\$ 13,157,900</u>
Total liabilities and fund balances	<u>\$ 10,399,136</u>	<u>\$ 3,586,004</u>	<u>\$ 1,434,253</u>	<u>\$ 15,419,393</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Assets
June 30, 2008

Amounts reported for governmental activities in the statement of net assets are different because:

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 13,157,900
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	16,677,098
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	769,399
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(13,340,832)
Net assets of governmental activities	<u>\$ 17,263,565</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>General</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 4,144,128	\$ -	\$ -	\$ 4,144,128
Other local taxes	3,078,466	-	-	3,078,466
Permits, privilege fees, and regulatory licenses	108,095	-	-	108,095
Fines and forfeitures	106,274	-	-	106,274
Revenue from the use of money and property	724,034	-	72,467	796,501
Charges for services	777,317	-	-	777,317
Miscellaneous	2,995,152	-	-	2,995,152
Recovered costs	254,618	-	-	254,618
Intergovernmental revenues:				
Commonwealth	1,922,959	-	-	1,922,959
Federal	41,123	100,251	-	141,374
Total revenues	<u>\$ 14,152,166</u>	<u>\$ 100,251</u>	<u>\$ 72,467</u>	<u>\$ 14,324,884</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,296,758	\$ -	\$ -	\$ 1,296,758
Judicial administration	208,306	3,043,993	-	3,252,299
Public safety	2,420,283	-	-	2,420,283
Public works	2,744,448	3,777,999	-	6,522,447
Health and welfare	628,278	-	-	628,278
Education	2,186,670	-	-	2,186,670
Parks, recreation, and cultural	1,023,055	102,673	184,257	1,309,985
Community development	756,482	-	-	756,482
Nondepartmental	192,983	-	-	192,983
Debt service:				
Principal retirement	999,949	-	-	999,949
Interest and other fiscal charges	607,663	-	-	607,663
Total expenditures	<u>\$ 13,064,875</u>	<u>\$ 6,924,665</u>	<u>\$ 184,257</u>	<u>\$ 20,173,797</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,087,291</u>	<u>\$ (6,824,414)</u>	<u>\$ (111,790)</u>	<u>\$ (5,848,913)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 945,759	\$ 24,650	\$ 970,409
Transfers out	(970,409)	-	-	(970,409)
Total other financing sources (uses)	<u>\$ (970,409)</u>	<u>\$ 945,759</u>	<u>\$ 24,650</u>	<u>\$ -</u>
Net change in fund balances	\$ 116,882	\$ (5,878,655)	\$ (87,140)	\$ (5,848,913)
Fund balances - beginning	8,573,394	8,912,026	1,521,393	19,006,813
Fund balances - ending	<u>\$ 8,690,276</u>	<u>\$ 3,033,371</u>	<u>\$ 1,434,253</u>	<u>\$ 13,157,900</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
 Reconciliation of Statement of Revenues,
 Expenditures, and Changes in Fund Balances of Governmental Funds
 To the Statement of Activities
 For the Year Ended June 30, 2008

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ (5,848,913)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	4,092,296
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,057)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	999,949
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	(15,551)
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Change in net assets of governmental activities	<u><u>\$ (775,276)</u></u>
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The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Net Assets
Proprietary Fund
June 30, 2008

	Enterprise Fund <u>Utility Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 216,955
Accounts receivable, net of allowance for uncollectibles	972,590
Total current assets	<u>\$ 1,189,545</u>
Noncurrent assets:	
Capital assets:	
Buildings	\$ 113,405
Less accumulated depreciation	(113,405)
Improvements other than buildings	442,708
Less accumulated depreciation	(291,253)
Machinery and equipment	328,958
Less accumulated depreciation	(107,205)
Infrastructure	3,299,903
Less accumulated depreciation	(1,818,141)
Total capital assets	<u>\$ 1,854,970</u>
Total noncurrent assets	<u>\$ 1,854,970</u>
Total assets	<u>\$ 3,044,515</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 541,649
Compensated absences-current portion	5,666
Deposits held in escrow	30,443
Bonds payable - current portion	42,806
Total current liabilities	<u>\$ 620,564</u>
Noncurrent liabilities:	
Compensated absences - net of current portion	\$ 50,990
Total noncurrent liabilities	<u>\$ 50,990</u>
Total liabilities	<u>\$ 671,554</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 1,812,164
Unrestricted	560,797
Total net assets	<u>\$ 2,372,961</u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

	Enterprise Fund <u>Utility Fund</u>
OPERATING REVENUES	
Charges for services:	
Water and sewer revenues	\$ 4,668,204
Miscellaneous	842
Total operating revenues	<u>\$ 4,669,046</u>
OPERATING EXPENSES	
Administration	\$ 113,351
Water treatment plant	612,902
Water treatment	6,095
Water distribution	889,407
Wastewater collection	1,512,873
MSA - Wastewater plant	985,531
Inflow and infiltration	46,956
Public Works Personnel	54,146
Miscellaneous	68,359
Internal services	98,924
Depreciation	84,917
Total operating expenses	<u>\$ 4,473,461</u>
Operating income (loss)	<u>\$ 195,585</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	<u>\$ (4,006)</u>
Change in net assets	<u>\$ 191,579</u>
Total net assets - beginning	2,181,382
Total net assets - ending	<u><u>\$ 2,372,961</u></u>

The notes to the financial statements are an integral part of this statement.

City of Lexington, Virginia
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2008

	Enterprise Fund <u>Utility Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and users	\$ 4,606,162
Payments to suppliers	(2,944,570)
Payments to and for employees	(1,391,975)
Net cash provided (used) by operating activities	<u>\$ 269,617</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to capital assets	\$ (83,137)
Principal payments on bonds	(178,605)
Interest payments	(4,006)
Net cash provided (used) by capital and related financing activities	<u>\$ (265,748)</u>
Net increase (decrease) in cash and cash equivalents	\$ 3,869
Cash and cash equivalents - beginning	213,086
Cash and cash equivalents - ending	<u><u>\$ 216,955</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	<u>\$ 195,585</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation expense	\$ 84,917
(Increase) decrease in accounts receivable	(64,459)
Increase (decrease) in compensated absences	(89)
Increase (decrease) in accounts payable	52,088
Increase (decrease) customer deposits	1,575
Total adjustments	<u>\$ 74,032</u>
Net cash provided (used) by operating activities	<u><u>\$ 269,617</u></u>

The notes to the financial statements are an integral part of this statement.

CITY OF LEXINGTON, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

Note 1-Summary of Significant Accounting Policies:

The financial statements of the City of Lexington, Virginia conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Reporting Entity

The City of Lexington, Virginia (government) is a municipal corporation governed by an elected seven-member City Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the City's discretely presented component units. They are reported in a separate column to emphasize that they are legally separate from the City.

School Board - The Lexington City School Board operates the elementary and secondary public schools in the City. School Board members are appointed by City Council. The School Board is fiscally dependent upon the City because the City approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type. The School Board does not issue its own financial report; therefore all of the School Board's financial information is presented within this Comprehensive Annual Financial Report.

Central Dispatch - The Central Dispatch provides emergency response dispatch for the City of Lexington, the City of Buena Vista, and the County of Rockbridge Fire and Rescue departments and the Cities of Lexington and Buena Vista Police departments. The City has determined this to be a component unit based on the opinion that its exclusion would render the basic financial statements misleading. The City does not exercise direct control over Central Dispatch's board or its annual budget, but does serve as fiscal agent. An annual budget is adopted for the Central Dispatch fund which accounts for the general operations of the emergency response dispatch activities. Financing is provided by funds from the Virginia Wireless Board Grant, as well as appropriations from the City of Lexington, the City of Buena Vista, and the County of Rockbridge. Central Dispatch consists of a governmental fund type, a special revenue fund, and has been presented as a nonmajor component unit in this financial report. Central Dispatch does not issue separate financial statements. All of Central Dispatch's financial information is presented within this Comprehensive Annual Financial Report.

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Rockbridge Area Recreation Organization - The Rockbridge Area Recreation Organization (RARO) was formed by the City of Lexington and the County of Rockbridge to provide recreational activities for area youth. The Lexington City Council does not appoint any RARO Board Members. The City has significant influence over RARO's budget matters but does not exercise direct control over its board or annual budget. The City also serves as RARO's fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Financing is provided by appropriation from the City's General Fund by City Council. The City then bills the County of Rockbridge for the County's share of RARO's operations; this revenue is shown as a recovered cost in the General Fund of the City. RARO consists of a governmental fund type, special revenue fund, and has been presented as a nonmajor component unit in this financial report. RARO does not issue separate financial statements. All of RARO's financial information is presented within this Comprehensive Annual Financial Report.

Regional Tourism - Regional Tourism serves to promote tourism in the Cities of Lexington and Buena Vista and the County of Rockbridge. The City of Lexington appoints two of the seven members to the governing board of Regional Tourism. The City does not exercise direct control over the Regional Tourism's board or its annual budget, but does serve as fiscal agent. The City has determined this to be a component unit because its exclusion would render the basic financial statements misleading. Regional Tourism is presented as a governmental fund type consisting of one special revenue fund which accounts for the general promotion of tourism. Financing is provided by specific allocations from the state government, as well as appropriations from the Cities of Lexington and Buena Vista and the County of Rockbridge. Regional Tourism has been presented as a nonmajor component unit within this financial report. Regional Tourism does not issue separate financial statements. All of Regional Tourism's financial information is presented within this Comprehensive Annual Financial Report.

Related Organizations - The City's officials are also responsible for appointing the members of the boards of other organizations, but the City's accountability for these organizations does not extend beyond making the appointment.

The City Council appoints the Lexington Industrial Development Authority (IDA) Board which approves applications for IDA loans. However, IDA loans do not represent obligations of the City, are not for the purpose of financing City projects, nor does Council exercise control over daily operations.

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations -

The Rockbridge Regional Library, Rockbridge County Regional Jail Commission, Rockbridge Area Community Services Board, Rockbridge Social Services Board, Shenandoah Valley Juvenile Detention Home Commission, Rockbridge Area Regional IDA, and the Maury Service Authority are considered intergovernmental (joint) ventures and therefore their operations are not included in the City's financial report. The Cities of Lexington and Buena Vista and the County of Rockbridge provide financial support and appoint their governing Boards, in which is vested the administration and control over operations.

The Cities of Lexington and Buena Vista and the County of Rockbridge participate in the Solid Waste Authority of Rockbridge County which operates a regional landfill. The Authority is governed by a committee comprised of five members appointed by the participating jurisdictions. City Council appoints one member and has control over the budget and financing of the Authority only to the extent of representation by the committee member appointed; therefore the Authority's operations are not included in this financial report.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as deferred revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the City.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

The government reports the following major governmental funds: (Continued)

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The *Cemetery Trust Fund* (Permanent Fund) accounts for investments and related earnings which are used to offset the cost of City cemeteries.

The government reports the following major proprietary funds:

The City operates a sewage collection and treatment system and a water treatment plant and distribution system. The activities of the system are accounted for in the Utility Fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on June 5th and December 5th. Personal property taxes are pro-rated. The City bills and collects its own property taxes.

4. Inventory

Inventories are stated at the lower of cost or market using the specific identification method. The only significant governmental fund-type inventory is the inventory of rehabilitated properties in the General Fund. The costs of these properties are recorded as expenditures when purchased. Changes in inventory amounts are offset directly to fund balance.

5. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$79,843 at June 30, 2008 and is comprised solely of property taxes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 1-Summary of Significant Accounting Policies: (Continued)**D. Assets, liabilities, and net assets or equity (Continued)****6. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental, business-type activities and discretely presented component unit columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Infrastructure, buildings, improvements and construction projects in excess of \$20,000 per project are added to the City's capital assets. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

Property, plant, and equipment of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20 - 50
Improvements other than buildings	10 - 15
Structures, lines, and accessories	20 - 40
Machinery and equipment	2 - 20
Infrastructure	50

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Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

8. Compensated Absences

Employees accumulate vacation and sick leave hours for subsequent use. In the governmental funds, compensated absences for vacation leave are reported only if matured (unused, reimbursable leave, still outstanding following an employee's termination, resignation, death, or retirement). In the primary government and the discretely presented nonmajor component units - Central Dispatch, RARO, and Regional Tourism, an employee can accumulate from 24 to 42 days of vacation, based on years of service, and unlimited sick leave. Compensated absences are accrued when incurred in governmental and proprietary funds and reported as a fund liability. In the discretely presented component unit - school board, an employee can accumulate up to 28 days of vacation and 200 days of sick leave. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignation or retirement. Compensated absences that are expected to be liquidated with expendable available resources are reported as expenditures and fund liabilities of the governmental fund that will pay it.

9. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

11. Net Assets

Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets.

12. Component Unit - School Board Capital Asset and Debt Presentation

By law, the School Board does not have taxing authority and, therefore, it cannot incur debt through general obligation bonds to fund the acquisition, construction or improvement to its capital assets. That responsibility lies with the local governing body who issues the debt on behalf of the School Board. However, the *Code of Virginia* requires the School Board to hold title to the capital assets (buildings and equipment) due to their responsibility for maintaining the asset.

In the Statement of Net Assets, this scenario presents a dilemma for the primary government. Debt issued on behalf of the School Board is reported as a liability of the primary government, thereby reducing the net assets of the primary government. The corresponding capital assets are reported as assets of the Component Unit - School Board (title holder), thereby increasing its net assets.

During the 2002 Virginia General Assembly session, the legislature amended the *Code of Virginia* to allow a tenancy in common with the School Board whenever the locality incurs a financial obligation which is payable over more than one fiscal year for any school property. The tenancy in common terminates when the associated debt has been paid in full. For financial reporting purposes, the legislation permits the locality to report the portion of the school property related to any outstanding financial obligation, thus eliminating a potential deficit from financing capital assets with debt. The legislation also allows local governments to elect not to acquire a tenancy in common by adopting a resolution to that effect.

The City concluded that, while joint tenancy would resolve a deficit in the primary government's net assets, the continual computation process that would be required to allocate principal, interest, asset amount, and depreciation between the City and the School Board would be cumbersome and not provide any added benefit to the financial statements. Therefore, City Council adopted a resolution declining tenancy in common for current and future obligations.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 2-Reconciliation of Government-Wide and Fund Financial Statements:

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *net assets-governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of these (\$13,340,832), (\$74,121), and (\$60,836) differences for the primary government, discretely presented component unit - school board, and nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
Bonds payable	\$ (13,322,292)	\$ -	\$ -
Less: Bond issuance costs	234,218	-	-
Accrued interest payable	(45,613)	-	-
Compensated absences	(207,145)	(74,121)	(60,836)
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net assets-governmental activities</i>	<u>\$ (13,340,832)</u>	<u>\$ (74,121)</u>	<u>\$ (60,836)</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of these \$4,092,296, \$79,293, and (\$52,184) differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	Primary Government	Component Unit School Board	Nonmajor Component Units
Capital outlays	\$ 4,793,783	\$ 275,060	\$ -
Loss on disposal of capital assets	(109,893)	-	-
Depreciation expenses	(591,594)	(195,767)	(52,184)
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets</i> of governmental activities	\$ 4,092,296	\$ 79,293	\$ (52,184)

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 2-Reconciliation of Government-Wide and Fund Financial Statements: (Continued)

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued)

Another element of that reconciliation states "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The detail of this \$999,949 difference in the primary government is as follows:

Principal repayments:

General obligation debt	\$ 994,949
Literary loans	<u>5,000</u>

Net adjustment to increase *net changes in fund balances-total governmental funds* to arrive at *changes in net assets of governmental activities*

\$ 999,949

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of these (\$15,551), \$3,432, and (\$5,686) differences for the primary government, discretely presented component unit - school board, and discretely presented nonmajor component units, respectively, are as follows:

	<u>Primary Government</u>	<u>Component Unit School Board</u>	<u>Nonmajor Component Units</u>
(Increase) decrease in compensated absences	\$ (7,642)	\$ 3,432	\$ (5,686)
(Increase) decrease in accrued interest	456	-	-
Amortization of issuance costs	<u>(8,365)</u>	<u>-</u>	<u>-</u>
Net adjustment to increase (decrease) <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (15,551)</u>	<u>\$ 3,432</u>	<u>\$ (5,686)</u>

Note 1-Summary of Significant Accounting Policies: (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations -

The Rockbridge Regional Library, Rockbridge County Regional Jail Commission, Rockbridge Area Community Services Board, Rockbridge Social Services Board, Shenandoah Valley Juvenile Detention Home Commission, Rockbridge Area Regional IDA, and the Maury Service Authority are considered intergovernmental (joint) ventures and therefore their operations are not included in the City's financial report. The Cities of Lexington and Buena Vista and the County of Rockbridge provide financial support and appoint their governing Boards, in which is vested the administration and control over operations.

The Cities of Lexington and Buena Vista and the County of Rockbridge participate in the Solid Waste Authority of Rockbridge County which operates a regional landfill. The Authority is governed by a committee comprised of five members appointed by the participating jurisdictions. City Council appoints one member and has control over the budget and financing of the Authority only to the extent of representation by the committee member appointed; therefore the Authority's operations are not included in this financial report.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements.

Note 3-Stewardship, Compliance, and Accountability:

A. Excess of expenditures over appropriations

For the year ended June 30, 2008, the City did not have any expenditures in excess of appropriations.

B. Deficit fund equity

At June 30, 2008, there were no funds with deficit fund equity.

Note 4-Deposits and Investments:

Deposits:

All cash of the City of Lexington, Virginia and its discretely presented component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act (a multiple financial institution collateral pool), Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk (Investments)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has an investment policy which limits the City's exposure to credit risk of investments. The City did not purchase any investments in 2008 that are outside the cemetery trust fund established to invest perpetual care funds for two cemeteries owned by the City. The City's investments at June 30, 2008 were held in the City's name by the City's custodial bank; except \$13,424 of U.S. Treasuries, \$158,536 of Corporate Bonds, \$26,586 of U.S. Agencies Bonds, \$253,927 of Mutual Fund Bonds, \$714,184 of Common Stocks and \$13,250 of other investments where the underlying securities were uninsured and held by the investment's counterparty's trust department or agent but not in the name of the City. The Local Government Investment Pool (LGIP) is not exposed to custodial credit risk because its existence is not evidenced by securities that exist in physical or book entry form.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 4-Deposits and Investments: (Continued)Credit Risk of Debt Securities

The City's rated debt investments as of June 30, 2008 were rated by Moody's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

City's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings		
	Aaa	A2	Unrated
LGIP	\$ 8,426,167	\$ -	\$ -
U.S. Agencies	26,586	-	-
Bond Mutual Fund	-	-	253,927
Corporate Bonds:			
BellSouth Corp.	-	52,559	-
Emerson Electric Co.	-	53,411	-
General Electric Corp.	52,566	-	-

Concentration of Credit Risk

At June 30, 2008, the City did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Interest Rate Risk

Investment Type	Fair Value	Maturity Date	Call Options
Corporate Bonds:			
BellSouth Corp	\$ 52,559	2/15/2010	Continuously
Emerson Electric Co.	53,411	8/15/2010	None
General Electric Corp	52,566	1/19/2010	None
Government Bonds:			
FNMA	26,586	1/15/2010	None
Mutual Fund Bonds:			
Ridgeworth Fd-LTD Term Fed Mtg Secs	57,052	Upon demand	None
Ridgeworth Fd-US Govt Secs	58,192	Upon demand	None
Ridgeworth Fd-Invt. Grade	89,248	Upon demand	None
Ridgeworth Fd-Strategic Income	49,435	Upon demand	None
LGIP	8,426,167	Upon demand	None

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 4-Deposits and Investments: (Continued)Interest Rate Risk (Continued)

The fair value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury.

The City's investment policy encourages City officials to invest in funds that limit the City's credit risk, custodial credit risk, and interest rate risk.

Note 5-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government	Component Unit- School Board	Nonmajor Component Units
<u>Rockbridge County:</u>			
RARO	\$ -	\$ -	\$ 24,616
General Fund	220,805	-	-
<u>Commonwealth of Virginia:</u>			
Local sales tax	197,433	-	-
State sales tax	-	88,795	-
Categorical aid-shared expenses	12,970	-	-
Other categorical aid	10,000	-	21,184
Non-categorical aid	253,059	-	-
Virginia public assistance funds	57,600	-	-
Other school funds	-	102,000	-
<u>Federal Government:</u>			
Categorical aid	60,809	-	-
School grants	-	48,021	-
Totals	<u>\$ 812,676</u>	<u>\$ 238,816</u>	<u>\$ 45,800</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 6-Interfund/Component Unit Obligations and Transfers:

<u>Fund</u>	<u>Due to Primary Government/ Component Unit</u>	<u>Due from Primary Government/ Component Unit</u>
Primary Government:		
General Fund	<u>\$ -</u>	<u>\$ 30,633</u>
Nonmajor Component Unit:		
RARO Fund	<u>\$ 30,633</u>	<u>\$ -</u>

Transfers are used to (1) move revenue from the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

Note 7-Long-Term Debt:**Primary Government - Governmental Activity Indebtedness:**

Annual requirements to amortize long-term debt and related interest are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 689,358	\$ 574,446
2010	693,960	548,306
2011	722,361	521,024
2012	416,613	496,375
2013	265,000	484,951
2014-2018	1,500,000	2,252,731
2019-2023	1,845,000	1,903,922
2024-2028	2,280,000	1,451,538
2029-2033	2,850,000	871,800
2034-2038	<u>2,060,000</u>	<u>157,750</u>
Totals	<u>\$ 13,322,292</u>	<u>\$ 9,262,843</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008Note 7-Long-Term Debt: (Continued)Primary Government - Governmental Activity Indebtedness: (Continued)

The following is a summary of long-term debt transactions of the City for the year ended June 30, 2008.

	Balance July 1, 2007	Issuances	Retirements	Balance June 30, 2008
General Obligation				
Bonds	\$ 14,317,241	\$ -	\$ (994,949)	\$ 13,322,292
Literary Loans	5,000	-	(5,000)	-
Compensated absences	199,503	210,398	(202,756)	207,145
Total	\$ 14,521,744	\$ 210,398	\$ (1,202,705)	\$ 13,529,437

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Bond	3.98%	10/1/2001	2011	\$ 4,029,000	\$ 1,524,210	\$ 436,276
GO Bond	2.75%	10/1/2002	2009	385,000	23,082	23,082
GO Bond	3.5%-5%	1/5/2006	2035	12,000,000	11,775,000	230,000
Total GO Bonds					\$ 13,322,292	\$ 689,358
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 207,145	\$ 20,715
Total Long-term debt					\$ 13,529,437	\$ 710,073

Compensated absences are liquidated by the City's general fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 7-Long-Term Debt: (Continued)Primary Government-Enterprise Activity Indebtedness:

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2009	\$ 42,806	\$ 148
Totals	\$ 42,806	\$ 148

Primary Government-Enterprise Activity Indebtedness:

The following is a summary of long-term debt transactions of the Enterprise Fund for the year ended June 30, 2008.

	Balance July 1, 2007	Issuances	Retirements	Balance June 30, 2008
General obligation bonds	\$ 221,411	\$ -	\$ (178,605)	\$ 42,806
Compensated absences	56,745	47,644	(47,733)	56,656
Total	\$ 278,156	\$ 47,644	\$ (226,338)	\$ 99,462

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Business-type Activities	Amount Due Within One Year
General Obligation Bonds:						
GO Bond	2.75%	10/1/2002	2009	\$ 715,000	\$ 42,806	\$ 42,806
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 56,656	\$ 5,666
Total Long-term debt					\$ 99,462	\$ 48,472

Compensated absences are liquidated by the Utilities Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**Note 8-Long-Term Debt-Component Units:**Discretely Presented Component Unit-School Board-Indebtedness:

The following is a summary of long-term debt transactions of the Component-Unit School Board for the year ended June 30, 2008.

	Balance July 1, 2007	Issuances	Retirements	Balance June 30, 2008
Compensated absences	\$ 77,553	\$ -	\$ (3,432)	\$ 74,121

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 74,121	\$ 7,412

Compensated absences are liquidated by the School Fund.

Discretely Presented Nonmajor Component Units:

The following is a summary of long-term debt transactions of the Nonmajor Component Units for the year ended June 30, 2008.

	Balance July 1, 2007	Issuances	Retirements	Balance June 30, 2008
Compensated absences	\$ 55,150	\$ 48,482	\$ (42,796)	\$ 60,836

Details of long-term indebtedness:

	Interest Rates	Issue Date	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
Other Obligations:						
Compensated Absences	n/a	n/a	n/a	n/a	\$ 60,836	\$ 6,084

Compensated absences are liquidated by the nonmajor component unit which reports the liability.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 9-Employee Retirement System and Pension Plans:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

The City contributes to the Virginia Retirement System (VRS). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service (1.85% to sheriffs and if the employer elects, to other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded at <http://www.varetire.org/Pdf/Publications/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2008 was 10.34% (not including the 5% member contribution) of annual covered payroll.

Discretely Presented Component Unit - School Board (Non-Professional Employees):

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer assumes this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2008 was 0.23% (not including the 5% member contribution) of the annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 9-Employee Retirement System and Pension Plans: (Continued)**C. Annual Pension Cost**

For fiscal year 2008, the City of Lexington, Virginia's annual pension cost of \$416,046 and \$171 was equal to the City of Lexington, Virginia's required and actual contributions for the City and the School Board Non-Professionals, respectively.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
City	6/30/2008	\$ 416,046	100.00%	\$ -
	6/30/2007	392,585	100.00%	-
	6/30/2006	312,036	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2008	\$ 171	100.00%	\$ -
	6/30/2007	175	100.00%	-
	6/30/2006	159	100.00%	-

¹ Employer portion only

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City of Lexington, Virginia's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City of Lexington, Virginia's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

D. Funded Status and Funding ProgressPrimary Government:

As of June 30, 2007, the most recent actuarial valuation date, the plan was 86.35% funded. The actuarial accrued liability for benefits was \$15,875,018, and the actuarial value of assets was \$13,707,726, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,167,292. The covered payroll (annual payroll of active employees covered by the plan) was \$3,833,544, and ratio of the UAAL to the covered payroll was 56.53%.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 9-Employee Retirement System and Pension Plans: (Continued)

D. Funded Status and Funding Progress (Continued)

Discretely Presented Component Unit - School Board (Non-Professional Employees):

As of June 30, 2007, the most recent actuarial valuation date, the plan was 142.28% funded. The actuarial accrued liability for benefits was \$342,562, and the actuarial value of assets was \$487,406, resulting in a negative unfunded actuarial accrued liability (UAAL) of (\$144,844). The covered payroll (annual payroll of active employees covered by the plan) was \$69,867, and ratio of the UAAL to the covered payroll was -207.31%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Discretely Presented Component Unit School Board - Professional Employees:

Plan Description

The Lexington City School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the State legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution to the statewide cost sharing pool for professional employees was \$233,205, \$202,274, and \$150,614 for the fiscal years ended 2008, 2007, and 2006, respectively. Employer contributions represented 10.30%, 9.20%, and 6.62%, of covered payroll for the fiscal years ended 2008, 2007, and 2006, respectively.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 10-Unearned Revenue:

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$60,684 is comprised of the following:

Property Taxes - Property taxes totaling \$56,562 not due until December 5, 2007, but paid prior to June 30, 2008.

Grants - Grant revenue collected by the City for various purposes that hasn't met the revenue criteria totaled \$4,122.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**Note 11-Capital Assets:**

Capital asset activity for the year ended June 30, 2008 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 1,992,532	\$ -	\$ -	\$ 1,992,532
Construction in progress	1,395,583	3,566,494	(26,000)	4,936,077
Total capital assets not being depreciated	<u>\$ 3,388,115</u>	<u>\$ 3,566,494</u>	<u>\$ (26,000)</u>	<u>\$ 6,928,609</u>
Capital assets, being depreciated:				
Buildings	\$ 4,420,689	\$ 259,000	\$ -	\$ 4,679,689
Improvements other than buildings	530,534	600,000	-	1,130,534
Infrastructure	4,852,341	55,182	-	4,907,523
Machinery and equipment	5,633,084	339,107	(471,861)	5,500,330
Total capital assets being depreciated	<u>\$ 15,436,648</u>	<u>\$ 1,253,289</u>	<u>\$ (471,861)</u>	<u>\$ 16,218,076</u>
Less: accumulated depreciation for:				
Buildings	\$ (1,167,936)	\$ (101,170)	\$ -	\$ (1,269,106)
Improvements other than buildings	(233,248)	(53,360)	-	(286,608)
Infrastructure	(1,750,525)	(98,659)	-	(1,849,184)
Machinery and equipment	(3,088,252)	(338,405)	361,968	(3,064,689)
Total accumulated depreciation	<u>\$ (6,239,961)</u>	<u>\$ (591,594)</u>	<u>\$ 361,968</u>	<u>\$ (6,469,587)</u>
Total capital assets being depreciated, net	<u>\$ 9,196,687</u>	<u>\$ 661,695</u>	<u>\$ (109,893)</u>	<u>\$ 9,748,489</u>
Governmental activities capital assets, net	<u>\$ 12,584,802</u>	<u>\$ 4,228,189</u>	<u>\$ (135,893)</u>	<u>\$ 16,677,098</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**Note 11-Capital Assets: (Continued)**

Primary Government: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities:</i>				
Capital assets, being depreciated:				
Buildings	\$ 113,405	\$ -	\$ -	\$ 113,405
Improvements other than buildings	442,708	-	-	442,708
Infrastructure	3,220,645	83,137	(3,879)	3,299,903
Machinery and equipment	328,958	-	-	328,958
Total capital assets being depreciated	<u>\$ 4,105,716</u>	<u>\$ 83,137</u>	<u>\$ (3,879)</u>	<u>\$ 4,184,974</u>
Less: accumulated depreciation for:				
Buildings	\$ (113,405)	\$ -	\$ -	\$ (113,405)
Improvements other than buildings	(283,693)	(7,560)	-	(291,253)
Infrastructure	(1,767,022)	(54,998)	3,879	(1,818,141)
Machinery and equipment	(84,846)	(22,359)	-	(107,205)
Total accumulated depreciation	<u>\$ (2,248,966)</u>	<u>\$ (84,917)</u>	<u>\$ 3,879</u>	<u>\$ (2,330,004)</u>
Total capital assets being depreciated, net	<u>\$ 1,856,750</u>	<u>\$ (1,780)</u>	<u>\$ -</u>	<u>\$ 1,854,970</u>
Business-type activities capital assets, net	<u>\$ 1,856,750</u>	<u>\$ (1,780)</u>	<u>\$ -</u>	<u>\$ 1,854,970</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government administration	\$ 58,794
Public safety	225,746
Public works	236,937
Parks, recreation, and culture	64,639
Community development	<u>5,478</u>
Total depreciation expense-governmental activities	<u>\$ 591,594</u>
Business-type activities:	
Water and Sewer Fund	<u>\$ 84,917</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008**Note 11-Capital Assets: (Continued)**

Capital asset activity for the School Board for the year ended June 30, 2008 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 4,550	\$ -	\$ -	\$ 4,550
Construction in progress	-	275,060	-	275,060
Total capital assets not being depreciated	<u>\$ 4,550</u>	<u>\$ 275,060</u>	<u>\$ -</u>	<u>\$ 279,610</u>
Capital assets, being depreciated:				
Buildings	\$ 4,776,367	\$ -	\$ -	\$ 4,776,367
Machinery and equipment	711,630	-	(220,141)	491,489
Total capital assets being depreciated	<u>\$ 5,487,997</u>	<u>\$ -</u>	<u>\$ (220,141)</u>	<u>\$ 5,267,856</u>
Less: accumulated depreciation for:				
Buildings	\$ (2,278,724)	\$ (140,844)	\$ -	\$ (2,419,568)
Machinery and equipment	(500,721)	(54,923)	220,141	(335,503)
Total accumulated depreciation	<u>\$ (2,779,445)</u>	<u>\$ (195,767)</u>	<u>\$ 220,141</u>	<u>\$ (2,755,071)</u>
Total capital assets being depreciated, net	<u>\$ 2,708,552</u>	<u>\$ (195,767)</u>	<u>\$ -</u>	<u>\$ 2,512,785</u>
School board capital assets, net	<u>\$ 2,713,102</u>	<u>\$ 79,293</u>	<u>\$ -</u>	<u>\$ 2,792,395</u>

Depreciation expense was charged to functions of the Discretely Presented Component Unit - School Board as follows:

Education	<u>\$195,767</u>
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 11-Capital Assets: (Continued)

Capital asset activity for the Nonmajor Component Units for the year ended June 30, 2008 was as follows:

Discretely Presented Nonmajor Component Unit:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated:				
Machinery and equipment - Central Dispatch	\$ 423,406	\$ -	\$ -	\$ 423,406
Machinery and equipment - Regional Tourism	11,664	-	-	11,664
Total capital assets being depreciated	<u>\$ 435,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 435,070</u>
Less: accumulated depreciation for:				
Machinery and equipment - Central Dispatch	\$ (202,761)	\$ (51,319)	\$ -	\$ (254,080)
Machinery and equipment - Regional Tourism	(8,202)	(865)	-	(9,067)
Total accumulated depreciation	<u>\$ (210,963)</u>	<u>\$ (52,184)</u>	<u>\$ -</u>	<u>\$ (263,147)</u>
Total capital assets being depreciated, net	<u>\$ 224,107</u>	<u>\$ (52,184)</u>	<u>\$ -</u>	<u>\$ 171,923</u>
Nonmajor component unit capital assets, net	<u>\$ 224,107</u>	<u>\$ (52,184)</u>	<u>\$ -</u>	<u>\$ 171,923</u>

Depreciation expense was charged to functions of the Nonmajor Component Units as follows:

Public safety	\$ 51,319
Community development	<u>865</u>
Total depreciation expense-nonmajor component units	<u>\$ 52,184</u>

Note 12-Risk Management:

The City and its component unit - School Board are exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The City and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability and auto insurance with the Virginia Municipal Liability Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The City and its component unit - School Board pay the Virginia Municipal Group contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The City and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 13-Contingent Liabilities:

Federal programs in which the City and its component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Construction of New Courthouse: The County of Rockbridge and the City of Lexington have been placed under a court order by the Commonwealth of Virginia to expand the space used for courts and to improve the safety and security of the courts.

A new courthouse is under construction by the County of Rockbridge and will be reported as an asset of the County. However, the City of Lexington is funding 25%, or approximately \$5.9 million, of the construction contract amount of \$23.7 million. Also, the City will be responsible for the construction of a 136 space parking deck adjacent to the court facility. The parking deck construction contract amount is \$5.6 million, of which the City of Lexington will be required to fund 90.1% or \$5.0 million. The construction of these projects began in 2006, and the City issued bonds for \$12 million to fund the majority of its share of the costs.

Contingent Liability: The City has guaranteed debt issued by the Maury Service Authority (MSA) for the construction of its current water treatment plant. The MSA's debt totaled \$9,710,904 as of June 30, 2008, and is scheduled to be completely retired by June of 2018. The City annually is assessed \$565,619 per year by the MSA for half of the debt service; the County of Rockbridge pays an equal assessment.

Note 14-Surety Bonds:

Primary Government:

Fidelity & Deposit Company of Maryland-Surety:

Steven Crowder, Chief of Police	\$	30,000
Pat DeLaney, Treasurer		500,000
Karen T. Roundy, Commissioner of Revenue		3,000

Virginia Municipal Liability Pool - Surety:

Pat DeLaney, Treasurer	\$	100,000
Wanda Floyd, Deputy Treasurer		3,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2008

Note 15-Service Contracts:

Maury Service Authority: The Maury Service Authority (MSA) provides water filtration and potable water to the City and to Rockbridge County, which in turn sell these same services to their respective residents. The City manages and operates the two plants under separate contractual agreements with the MSA, and charges the MSA for administrative costs plus an agreed upon fee for services. The City bills the MSA quarterly for actual operating costs plus 5.0% for water treatment plant administrative costs and 5.0% for wastewater treatment plant administrative costs.

In fiscal year 2008, the City paid the MSA \$1,386,887 for bulk purchases of water and sewer services, as well as a \$565,619 assessment for debt service. The City also received \$1,678,354 from the MSA under the operating agreements described above.

Solid Waste Authority of Rockbridge County: The City of Lexington, along with other localities, participates in the Solid Waste Authority of Rockbridge County, which operates a regional landfill. Each participating jurisdiction is responsible through tipping fees for its proportionate share of operating costs. Each jurisdiction, after consultation with the committee, will determine tipping fees to be charged to waste generators within their jurisdiction. The tipping fee charged in 2008 was \$23/ton for refuse disposal at the landfill.

Rockbridge County High School: Rockbridge County owns and operates the Rockbridge County High School. Students residing in both the City and County attend the consolidated school. The City paid the County a portion of construction costs of the school and pays an annual per student tuition cost equal to the percentage of City students attending the school multiplied by operating costs. The City paid the County of Rockbridge \$1,089,231 for high school student tuition in 2008.

Note 16-Annexation/Revenue Sharing:

In 1983, the City filed a petition with the Virginia Commission on Local Government to annex 6.8 square miles of land in the County of Rockbridge adjoining the City. The proposed annexation would have increased the City's size by approximately 842 residents and would have increased its tax base. Negotiations between the City and the County, in an effort to resolve the annexation issues, resulted in a revenue sharing agreement between the two jurisdictions. The voters of the County of Rockbridge in a special referendum approved the agreement on March 6, 1986, and both governing bodies have passed an ordinance adopting the agreement. During fiscal year 2008, the City received \$1,696,618 from the County representing the revenue sharing payment under this agreement.

Note 17-Litigation:

The City is party to several ongoing lawsuits. The most significant suit outstanding involves the estate of Charles Volpe which states a claim of \$9,000,000 with an additional demand for punitive damages of \$350,000. It is not clear whether or not the claimant will be successful in the case, however, if the damages sought are awarded, the City has only \$6,000,000 in insurance coverage to pay the damages.

REQUIRED SUPPLEMENTARY INFORMATION

City of Lexington, Virginia

General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 3,896,900	\$ 3,896,900	\$ 4,144,128	\$ 247,228
Other local taxes	2,930,000	2,930,285	3,078,466	148,181
Permits, privilege fees, and regulatory licenses	35,100	35,100	108,095	72,995
Fines and forfeitures	93,600	93,600	106,274	12,674
Revenue from the use of money and property	351,500	351,500	724,034	372,534
Charges for services	724,700	731,805	777,317	45,512
Miscellaneous	1,978,300	2,004,249	2,995,152	990,903
Recovered costs	260,137	260,137	254,618	(5,519)
Intergovernmental revenues:				
Commonwealth	2,092,100	2,152,292	1,922,959	(229,333)
Federal	51,500	67,084	41,123	(25,961)
Total revenues	\$ 12,413,837	\$ 12,522,952	\$ 14,152,166	\$ 1,629,214
EXPENDITURES				
Current:				
General government administration	\$ 1,154,227	\$ 1,343,996	\$ 1,296,758	\$ 47,238
Judicial administration	211,329	211,329	208,306	3,023
Public safety	2,551,627	2,599,529	2,420,283	179,246
Public works	2,896,032	2,950,633	2,744,448	206,185
Health and welfare	886,901	913,235	628,278	284,957
Education	2,214,982	2,214,982	2,186,670	28,312
Parks, recreation, and cultural	412,775	448,060	1,023,055	(574,995)
Community development	677,335	858,618	756,482	102,136
Nondepartmental	216,888	206,768	192,983	13,785
Debt service:				
Principal retirement	999,949	999,949	999,949	-
Interest and other fiscal charges	607,662	607,662	607,663	(1)
Total expenditures	\$ 12,829,707	\$ 13,354,761	\$ 13,064,875	\$ 289,886
Excess (deficiency) of revenues over (under) expenditures	\$ (415,870)	\$ (831,809)	\$ 1,087,291	\$ 1,919,100
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (87,000)	\$ (970,409)	\$ (970,409)	\$ -
Total other financing sources and uses	\$ (87,000)	\$ (970,409)	\$ (970,409)	\$ -
Net change in fund balances	\$ (502,870)	\$ (1,802,218)	\$ 116,882	\$ 1,919,100
Fund balances - beginning	-	-	8,573,394	8,573,394
Fund balances - ending	\$ (502,870)	\$ (1,802,218)	\$ 8,690,276	\$ 10,492,494

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO THE BUDGETARY COMPARISON SCHEDULES
JUNE 30, 2008

Note 1-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: the General Fund, the Capital Projects Fund, the Water and Sewer Utility Fund, and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the City Council can revise the appropriation for each function level or division of expenditures. The City Manager is authorized to transfer budgeted amounts within departments of a function level of expenditures. The School Board is authorized to transfer budgeted amounts within the departments at the function level of a school system category of expense.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the General Capital Projects Fund. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. The City reserves fund balances for certain designated ongoing projects at fiscal year end. Appropriations are then made in the first quarter budget amendments of the following year for the reservation. Appropriations lapse on June 30, for all City units. The City's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.
8. All budget data presented in the accompanying financial statements is the revised budget as of June 30.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is not part of the City's accounting system.

City of Lexington, Virginia
Schedule of Pension Funding Progress
June 30, 2008

Primary Government:

City Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2007	\$ 13,707,726	\$ 15,875,018	\$ 2,167,292	86.35%	\$ 3,833,544	56.53%
6/30/2006	12,249,997	14,506,923	2,256,926	84.44%	3,641,777	61.97%
6/30/2005	11,390,994	14,296,161	2,905,167	79.68%	3,526,657	82.38%

Discretely Presented Component Unit - School Board:

Non-professional Employees Retirement Plan:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio Assets as % of AAL (2) / (3)	Annual Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2007	\$ 487,406	\$ 342,562	\$ (144,844)	142.28%	\$ 69,867	-207.31%
6/30/2006	449,680	315,547	(134,133)	142.51%	67,964	-197.36%
6/30/2005	438,428	404,897	(33,531)	108.28%	76,719	-43.71%

OTHER SUPPLEMENTARY INFORMATION

SUPPLEMENTARY FINANCIAL STATEMENTS

City of Lexington, Virginia
Capital Projects Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
Intergovernmental revenues:				
Federal	\$ -	\$ 457,296	\$ 100,251	\$ (357,045)
Total revenues	\$ -	\$ 457,296	\$ 100,251	\$ (357,045)
EXPENDITURES				
Current:				
Judicial administration	\$ -	\$ 4,336,035	\$ 3,043,993	\$ 1,292,042
Public works	5,000	5,449,947	3,777,999	1,671,948
Parks, recreation, and cultural	60,000	520,102	102,673	417,429
Total expenditures	\$ 65,000	\$ 10,306,084	\$ 6,924,665	\$ 3,381,419
Excess (deficiency) of revenues over (under) expenditures	\$ (65,000)	\$ (9,848,788)	\$ (6,824,414)	\$ 3,024,374
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 65,000	\$ 945,759	\$ 945,759	\$ -
Total other financing sources and uses	\$ 65,000	\$ 945,759	\$ 945,759	\$ -
Net change in fund balances	\$ -	\$ (8,903,029)	\$ (5,878,655)	\$ 3,024,374
Fund balances - beginning	-	-	8,912,026	8,912,026
Fund balances - ending	\$ -	\$ (8,903,029)	\$ 3,033,371	\$ 11,936,400

**DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL
BOARD**

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund is a special revenue fund that accounts for the operations of the City's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

City of Lexington, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2008

School
Operating
Fund

ASSETS

Cash and cash equivalents	\$ 723,838
Due from other governmental units	238,816
Total assets	<u>\$ 962,654</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 204,922
Payroll liabilities	35,748
Contracts payable	354,059
Deferred revenue	33,900
Total liabilities	<u>\$ 628,629</u>

Fund balances:

Unreserved:

Designated for capital outlay	\$ 40,000
Designated for carryovers	174,749
Undesignated	119,276
Total fund balances	<u>\$ 334,025</u>
Total liabilities and fund balances	<u>\$ 962,654</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Total fund balances per above	\$ 334,025
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	2,792,395
--	-----------

Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(74,121)
--	----------

Net assets of governmental activities	<u>\$ 3,052,299</u>
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City of Lexington, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2008

	School Operating Fund
REVENUES	
Revenue from the use of money and property	\$ 4,896
Charges for services	229,039
Miscellaneous	164
Recovered costs	12,128
Intergovernmental revenues:	
Local government	2,186,670
Commonwealth	3,022,117
Federal	266,232
Total revenues	<u>\$ 5,721,246</u>
 EXPENDITURES	
Current:	
Education	\$ 5,577,913
Capital projects	275,060
Total expenditures	<u>\$ 5,852,973</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>\$ (131,727)</u>
 Net change in fund balances	 \$ (131,727)
Fund balances - beginning	465,752
Fund balances - ending	<u>\$ 334,025</u>

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above	\$ (131,727)
--	--------------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.

79,293

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

3,432

Change in net assets of governmental activities

\$ (49,002)

City of Lexington, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2008

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 600	\$ 3,893	\$ 4,896	\$ 1,003
Charges for services	203,000	223,000	229,039	6,039
Miscellaneous	600	600	164	(436)
Recovered costs	-	12,127	12,128	1
Intergovernmental revenues:				
Local government	2,214,982	2,214,982	2,186,670	(28,312)
Commonwealth	3,087,719	3,022,516	3,022,117	(399)
Federal	238,010	373,883	266,232	(107,651)
Total revenues	<u>\$ 5,744,911</u>	<u>\$ 5,851,001</u>	<u>\$ 5,721,246</u>	<u>\$ (129,755)</u>
EXPENDITURES				
Current:				
Education	\$ 5,784,911	\$ 5,882,418	\$ 5,577,913	\$ 304,505
Capital projects	-	275,060	275,060	-
Total expenditures	<u>\$ 5,784,911</u>	<u>\$ 6,157,478</u>	<u>\$ 5,852,973</u>	<u>\$ 304,505</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (40,000)</u>	<u>\$ (306,477)</u>	<u>\$ (131,727)</u>	<u>\$ 174,750</u>
Net change in fund balances	\$ (40,000)	\$ (306,477)	\$ (131,727)	\$ 174,750
Fund balances - beginning	40,000	306,477	465,752	159,275
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,025</u>	<u>\$ 334,025</u>

DISCRETELY PRESENTED NONMAJOR COMPONENT UNITS

NON MAJOR GOVERNMENTAL FUNDS

The following discretely presented component units have been determined by the management of the City of Lexington to be nonmajor.

Central Dispatch - This component unit consists of a single General Fund which accounts for the general operations of the Central Dispatch emergency response services. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, and the County of Rockbridge.

Rockbridge Area Recreation Organization (RARO) - This component unit consists of a single General Fund which accounts for recreational activities provided to area youth and adults. Financing is provided by appropriations from the primary government and the County of Rockbridge.

Regional Tourism - This component unit consists of a single General Fund which accounts for the promotion of tourism in the area. Financing is provided by specific allocations from the state as well as appropriations from the primary government, the City of Buena Vista, and the County of Rockbridge.

City of Lexington, Virginia
Combining Balance Sheet
Discretely Presented Nonmajor Component Units
June 30, 2008

	Central Dispatch Fund	Rockbridge Area Recreation Organization Fund	Regional Tourism Fund	Total
ASSETS				
Cash and cash equivalents	\$ 16,715	\$ -	\$ 212,220	\$ 228,935
Receivables (net of allowance for uncollectibles):				
Accounts receivable	130,938	35,348	209	166,495
Due from other governmental units	19,940	24,616	1,244	45,800
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	22,515	-	22,515
Total assets	<u>\$ 167,593</u>	<u>\$ 82,479</u>	<u>\$ 213,673</u>	<u>\$ 463,745</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 11,864	\$ 4,466	\$ 9,450	\$ 25,780
Due to primary government	-	30,633	-	30,633
Due to other governmental units	6,832	-	-	6,832
Total liabilities	<u>\$ 18,696</u>	<u>\$ 35,099</u>	<u>\$ 9,450</u>	<u>\$ 63,245</u>

Fund balances:

Reserved for:

Pickral memorial	\$ -	\$ 22,515	\$ -	\$ 22,515
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Unreserved:

Undesignated	-	435	204,223	204,658
Designated for equipment replacement	148,897	24,430	-	173,327
Total fund balances	<u>\$ 148,897</u>	<u>\$ 47,380</u>	<u>\$ 204,223</u>	<u>\$ 400,500</u>
Total liabilities and fund balances	<u>\$ 167,593</u>	<u>\$ 82,479</u>	<u>\$ 213,673</u>	<u>\$ 463,745</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Total fund balances per above \$ 400,500

Capital assets used in governmental activities are not financial resources and, therefore,
are not reported in the funds. 171,923

Long-term liabilities, including compensated absences, are not due and payable in the current
period and, therefore, are not reported in the funds. (60,836)

Net assets of governmental activities \$ 511,587

City of Lexington, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2008

	Rockbridge Area			
	Recreation			
	Central Dispatch	Organization	Regional Tourism	
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
REVENUES				
Revenue from the use of money and property	\$ 814	\$ 934	\$ -	\$ 1,748
Charges for services	-	114,651	12,519	127,170
Miscellaneous	-	23,958	2,922	26,880
Recovered costs	651,006	193,550	381,604	1,226,160
Intergovernmental revenues:				
Local government	162,408	80,972	161,508	404,888
Commonwealth	159,949	-	1,727	161,676
Total revenues	<u>\$ 974,177</u>	<u>\$ 414,065</u>	<u>\$ 560,280</u>	<u>\$ 1,948,522</u>
EXPENDITURES				
Current:				
Public safety	\$ 961,177	\$ -	\$ -	\$ 961,177
Parks, recreation, and cultural	-	421,955	-	421,955
Community development	-	-	450,435	450,435
Total expenditures	<u>\$ 961,177</u>	<u>\$ 421,955</u>	<u>\$ 450,435</u>	<u>\$ 1,833,567</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 13,000</u>	<u>\$ (7,890)</u>	<u>\$ 109,845</u>	<u>\$ 114,955</u>
Net change in fund balances	\$ 13,000	\$ (7,890)	\$ 109,845	\$ 114,955
Fund balances - beginning	135,897	55,270	94,378	285,545
Fund balances - ending	<u>\$ 148,897</u>	<u>\$ 47,380</u>	<u>\$ 204,223</u>	<u>\$ 400,500</u>

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balances - total governmental funds - per above \$ 114,955

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period. (52,184)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. (5,686)

Change in net assets of governmental activities \$ 57,085

City of Lexington, Virginia
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Nonmajor Component Units
For the Year Ended June 30, 2008

	Central Dispatch Fund				Rockbridge Area Recreation Organization (RARO)				Regional Tourism			
	Budgeted Amounts		Actual		Budgeted Amounts		Actual		Budgeted Amounts		Actual	
	Original	Final			Original	Final			Original	Final		
REVENUES												
Revenue from the use of money and property	\$ 2,800	\$ 2,800	\$ 814	\$ (1,986)	\$ -	\$ -	\$ 934	\$ 934	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-	127,874	127,874	114,651	(13,223)	8,600	8,600	12,519	3,919
Miscellaneous	-	-	-	-	22,500	35,904	23,958	(11,946)	3,075	3,075	2,922	(153)
Recovered costs	744,446	744,446	651,006	(93,440)	212,733	212,733	193,550	(19,183)	381,604	381,604	381,604	-
Intergovernmental revenues:												
Local government	186,112	186,112	162,408	(23,704)	80,692	80,692	80,972	280	161,508	161,508	161,508	-
Commonwealth	100,000	100,000	159,949	59,949	-	-	-	-	-	-	1,727	1,727
Total revenues	\$ 1,033,358	\$ 1,033,358	\$ 974,177	\$ (59,181)	\$ 443,799	\$ 457,203	\$ 414,065	\$ (43,138)	\$ 554,787	\$ 554,787	\$ 560,280	\$ 5,493
EXPENDITURES												
Current:												
Public safety	\$ 1,033,358	\$ 1,033,358	\$ 961,177	\$ 72,181	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Parks, recreation, and cultural	-	-	-	-	443,799	457,203	421,955	35,248	-	-	-	-
Community development	-	-	-	-	-	-	-	-	554,787	554,787	450,435	104,352
Total expenditures	\$ 1,033,358	\$ 1,033,358	\$ 961,177	\$ 72,181	\$ 443,799	\$ 457,203	\$ 421,955	\$ 35,248	\$ 554,787	\$ 554,787	\$ 450,435	\$ 104,352
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 13,000	\$ 13,000	\$ -	\$ -	\$ (7,890)	\$ (7,890)	\$ -	\$ -	\$ 109,845	\$ 109,845
Net change in fund balances	\$ -	\$ -	\$ 13,000	\$ 13,000	\$ -	\$ -	\$ (7,890)	\$ (7,890)	\$ -	\$ -	\$ 109,845	\$ 109,845
Fund balances - beginning	-	-	135,897	135,897	-	-	55,270	55,270	-	-	94,378	94,378
Fund balances - ending	\$ -	\$ -	\$ 148,897	\$ 148,897	\$ -	\$ -	\$ 47,380	\$ 47,380	\$ -	\$ -	\$ 204,223	\$ 204,223

SUPPORTING SCHEDULES

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 3,390,900	\$ 3,390,900	\$ 3,476,375	\$ 85,475
Real and personal public service corporation taxes	74,900	74,900	87,821	12,921
Personal property taxes	399,900	399,900	548,078	148,178
Penalties	25,900	25,900	22,399	(3,501)
Interest	5,300	5,300	9,455	4,155
Total general property taxes	\$ 3,896,900	\$ 3,896,900	\$ 4,144,128	\$ 247,228
Other local taxes:				
Local sales and use taxes	\$ 770,800	\$ 770,800	\$ 794,444	\$ 23,644
Consumers' utility taxes	304,000	304,000	310,248	6,248
Consumption taxes	27,300	27,300	27,416	116
Business license taxes	540,000	540,000	607,520	67,520
Communications tax	347,500	347,500	368,921	21,421
Motor vehicle licenses	64,100	64,100	65,470	1,370
Bank stock taxes	49,200	49,200	39,413	(9,787)
Taxes on recordation and wills	65,900	65,900	61,427	(4,473)
Hotel and motel room taxes	206,000	206,285	207,005	720
Restaurant food taxes	555,200	555,200	596,602	41,402
Total other local taxes	\$ 2,930,000	\$ 2,930,285	\$ 3,078,466	\$ 148,181
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 5,900	\$ 5,900	\$ 5,093	\$ (807)
Building permits	26,400	26,400	101,283	74,883
Excavation permits	1,000	1,000	725	(275)
Hunting and fishing permits	1,800	1,800	994	(806)
Total permits, privilege fees, and regulatory licenses	\$ 35,100	\$ 35,100	\$ 108,095	\$ 72,995
Fines and forfeitures:				
Court fines and forfeitures	\$ 55,800	\$ 55,800	\$ 63,772	\$ 7,972
Parking fines	32,500	32,500	35,957	3,457
Courthouse fees	5,300	5,300	6,545	1,245
Total fines and forfeitures	\$ 93,600	\$ 93,600	\$ 106,274	\$ 12,674
Revenue from use of money and property:				
Revenue from use of money	\$ 331,500	\$ 331,500	\$ 700,907	\$ 369,407
Revenue from use of property	20,000	20,000	23,127	3,127
Total revenue from use of money and property	\$ 351,500	\$ 351,500	\$ 724,034	\$ 372,534
Charges for services:				
Charges for finance	\$ 54,500	\$ 54,500	\$ 51,567	\$ (2,933)
Charges for public safety	1,500	8,605	14,478	5,873
Charges for youth services	4,300	4,300	3,050	(1,250)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Charges for services: (Continued)				
Charges for rescue services	\$ 228,000	\$ 228,000	\$ 263,368	\$ 35,368
Charges for public works	19,200	19,200	11,436	(7,764)
Charges for grave openings	23,500	23,500	22,717	(783)
Charges for burial spaces	27,300	27,300	33,150	5,850
Charges for recreation	78,800	78,800	93,198	14,398
Charges for sanitation and waste removal	129,300	129,300	128,960	(340)
Charges for landfill fees	153,600	153,600	147,788	(5,812)
Charges for community activity support	4,200	4,200	4,970	770
Charges for farmer's market	-	-	1,884	1,884
Charges for other services	500	500	751	251
Total charges for services	\$ 724,700	\$ 731,805	\$ 777,317	\$ 45,512
Miscellaneous revenue:				
Miscellaneous	\$ 297,000	\$ 322,949	\$ 1,298,534	\$ 975,585
County revenue sharing	1,681,300	1,681,300	1,696,618	15,318
Total miscellaneous revenue	\$ 1,978,300	\$ 2,004,249	\$ 2,995,152	\$ 990,903
Recovered costs:				
Joint services fire and rescue	\$ 260,137	\$ 260,137	\$ 220,805	\$ (39,332)
Other recovered costs	-	-	33,813	33,813
Total recovered costs	\$ 260,137	\$ 260,137	\$ 254,618	\$ (5,519)
Total revenue from local sources	\$ 10,270,237	\$ 10,303,576	\$ 12,188,084	\$ 1,884,508
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
ABC profits	\$ 4,000	\$ 4,000	\$ -	\$ (4,000)
Wine taxes	4,200	4,200	-	(4,200)
Motor vehicle carriers' tax	100	100	220	120
Mobile home titling tax	500	500	275	(225)
Rolling stock tax	-	-	223	223
Motor vehicle rental tax	1,100	1,100	1,910	810
State recordation tax	13,500	13,500	14,084	584
Personal property tax relief funds	581,200	581,200	620,781	39,581
Other noncategorical aid	700	700	24	(676)
Total noncategorical aid	\$ 605,300	\$ 605,300	\$ 637,517	\$ 32,217

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Intergovernmental revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Law enforcement	\$ 231,700	\$ 231,700	\$ 227,418	\$ (4,282)
Commissioner of revenue	85,200	85,200	85,757	557
Treasurer	68,300	68,300	68,810	510
Registrar/electoral board	37,200	37,200	41,754	4,554
Total shared expenses	<u>\$ 422,400</u>	<u>\$ 422,400</u>	<u>\$ 423,739</u>	<u>\$ 1,339</u>
Other categorical aid:				
Street maintenance	\$ 560,000	\$ 588,959	\$ 588,541	\$ (418)
Welfare payments	432,100	432,100	171,601	(260,499)
Comprehensive services	45,900	45,900	44,781	(1,119)
Fire program grant	16,600	23,321	19,198	(4,123)
Four for life	3,300	5,817	5,957	140
Forfeited asset sharing	1,500	1,500	392	(1,108)
Arts grant	5,000	5,000	5,000	-
RSIF Grant	-	11,995	11,995	-
DOF grant	-	10,000	10,000	-
Other categorical aid	-	-	4,238	4,238
Total other categorical aid	<u>\$ 1,064,400</u>	<u>\$ 1,124,592</u>	<u>\$ 861,703</u>	<u>\$ (262,889)</u>
Total categorical aid	<u>\$ 1,486,800</u>	<u>\$ 1,546,992</u>	<u>\$ 1,285,442</u>	<u>\$ (261,550)</u>
Total revenue from the Commonwealth	<u>\$ 2,092,100</u>	<u>\$ 2,152,292</u>	<u>\$ 1,922,959</u>	<u>\$ (229,333)</u>
Revenue from the federal government:				
Categorical aid:				
Federal Public Assistance	\$ 40,000	\$ 40,000	\$ 22,251	\$ (17,749)
DCR Grant	-	6,237	6,238	1
DMVG	5,000	11,287	7,948	(3,339)
Department of homeland security grant	-	2,460	2,372	(88)
CJSG	3,500	3,500	1,480	(2,020)
Department of forestry grant	3,000	3,600	834	(2,766)
Total categorical aid	<u>\$ 51,500</u>	<u>\$ 67,084</u>	<u>\$ 41,123</u>	<u>\$ (25,961)</u>
Total revenue from the federal government	<u>\$ 51,500</u>	<u>\$ 67,084</u>	<u>\$ 41,123</u>	<u>\$ (25,961)</u>
Total General Fund	<u>\$ 12,413,837</u>	<u>\$ 12,522,952</u>	<u>\$ 14,152,166</u>	<u>\$ 1,629,214</u>

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Fund:				
Revenue from the federal government:				
Categorical aid:				
DCR grant	\$ -	\$ 65,000	\$ -	\$ (65,000)
TEA - 21 grant	-	392,296	100,251	(292,045)
Total categorical aid	\$ -	\$ 457,296	\$ 100,251	\$ (357,045)
Total revenue from the federal government	\$ -	\$ 457,296	\$ 100,251	\$ (357,045)
Total Capital Projects Fund	\$ -	\$ 457,296	\$ 100,251	\$ (357,045)
Total Primary Government	\$ 12,413,837	\$ 12,980,248	\$ 14,252,417	\$ 1,272,169
Discretely Presented Component Units:				
Major Fund:				
Special Revenue Funds:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 300	\$ 3,593	\$ 4,865	\$ 1,272
Revenue from the use of property	300	300	31	(269)
Total revenue from use of money and property	\$ 600	\$ 3,893	\$ 4,896	\$ 1,003
Charges for services:				
Cafeteria sales	\$ 78,000	\$ 78,000	\$ 83,282	\$ 5,282
Tuition and payments from other divisions	125,000	145,000	145,757	757
Total charges for services	\$ 203,000	\$ 223,000	\$ 229,039	\$ 6,039
Miscellaneous revenue:				
Other miscellaneous	\$ 600	\$ 600	\$ 164	\$ (436)
Recovered costs:				
Other recovered costs	\$ -	\$ 12,127	\$ 12,128	\$ 1
Total revenue from local sources	\$ 204,200	\$ 239,620	\$ 246,227	\$ 6,607
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 2,214,982	\$ 2,214,982	\$ 2,186,670	\$ (28,312)
Total revenues from local governments	\$ 2,214,982	\$ 2,214,982	\$ 2,186,670	\$ (28,312)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Major Fund: (Continued)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 535,196	\$ 536,758	\$ 513,413	\$ (23,345)
Basic school aid	1,624,556	1,544,643	1,560,083	15,440
Remedial summer education	8,162	14,840	14,840	-
Gifted and talented	15,286	14,660	14,667	7
Remedial education	19,871	19,058	19,067	9
Enrollment loss	-	29,403	29,332	(71)
Special education	118,846	113,980	114,037	57
Textbook payment	38,321	36,752	36,771	19
Social security fringe benefits	85,982	82,462	82,503	41
Retirement fringe benefits	123,432	123,509	123,571	62
Group life insurance instructional	4,586	4,398	4,400	2
State lottery payments	84,450	80,992	81,696	704
Early reading intervention	3,305	3,305	4,957	1,652
Homebound education	404	706	706	-
School construction	108,045	107,865	107,865	-
At risk payments	10,389	8,114	8,114	-
Primary class size	47,592	47,719	46,263	(1,456)
School food	1,988	1,988	1,985	(3)
Technology	102,000	102,000	102,000	-
Standards of Learning algebra readiness	2,898	2,898	3,386	488
Comp. Supp.	102,032	97,854	99,003	1,149
Vocational education	43,564	41,781	41,801	20
Mentor teacher program	-	-	445	445
English as a second language	4,674	4,691	8,712	4,021
Other state funds	2,140	2,140	2,500	360
Total categorical aid	\$ 3,087,719	\$ 3,022,516	\$ 3,022,117	\$ (399)
Total revenue from the Commonwealth	\$ 3,087,719	\$ 3,022,516	\$ 3,022,117	\$ (399)
Revenue from the federal government:				
Categorical aid:				
Title I	\$ 69,556	\$ 66,744	\$ 63,396	\$ (3,348)
Title VI-B - Special education, grants to states	118,904	234,377	119,497	(114,880)
Drug free schools	550	550	550	-
Title II, part A	-	20,549	21,881	1,332
Title V	-	657	657	-
Literacy challenge grant	-	532	533	1
Headstart	14,000	14,000	12,438	(1,562)
School breakfast program	3,936	3,936	4,177	241
School lunch program	31,064	31,064	32,969	1,905
Other federal funds	-	1,474	10,134	8,660
Total categorical aid	\$ 238,010	\$ 373,883	\$ 266,232	\$ (107,651)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Major Fund: (Continued)				
Special Revenue Funds: (Continued)				
School Operating Fund: (Continued)				
Revenue from the federal government: (Continued)				
Total revenue from the federal government	\$ 238,010	\$ 373,883	\$ 266,232	\$ (107,651)
 Total Discretely Presented Component Unit - School Board	 \$ 5,744,911	 \$ 5,851,001	 \$ 5,721,246	 \$ (129,755)
 Nonmajor Funds:				
Central Dispatch Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 2,800	\$ 2,800	\$ 814	\$ (1,986)
 Recovered costs:				
City of Buena Vista	\$ 172,805	\$ 172,805	\$ 151,115	\$ (21,690)
County of Rockbridge	571,641	571,641	499,891	(71,750)
Total recovered costs	\$ 744,446	\$ 744,446	\$ 651,006	\$ (93,440)
 Total revenue from local sources	 \$ 747,246	 \$ 747,246	 \$ 651,820	 \$ (95,426)
 Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 186,112	\$ 186,112	\$ 162,408	\$ (23,704)
 Revenue from the Commonwealth:				
Categorical aid:				
Virginia wireless	\$ 100,000	\$ 100,000	\$ 159,949	\$ 59,949
 Total Central Dispatch Fund	 \$ 1,033,358	 \$ 1,033,358	 \$ 974,177	 \$ (59,181)
 Rockbridge Area Recreation Organization (RARO):				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 934	\$ 934
 Charges for services:				
Charges for programs	\$ 127,874	\$ 127,874	\$ 114,651	\$ (13,223)
 Miscellaneous revenue:				
Other miscellaneous	\$ 22,500	\$ 35,904	\$ 23,958	\$ (11,946)

City of Lexington, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds: (Continued)				
Rockbridge Area Recreation Organization (RARO): (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
County of Rockbridge	\$ 212,733	\$ 212,733	\$ 193,550	\$ (19,183)
Total recovered costs	\$ 212,733	\$ 212,733	\$ 193,550	\$ (19,183)
Total revenue from local sources	\$ 363,107	\$ 376,511	\$ 333,093	\$ (43,418)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 80,692	\$ 80,692	\$ 80,972	\$ 280
Total Rockbridge Area Recreation Organization (RARO)	\$ 443,799	\$ 457,203	\$ 414,065	\$ (43,138)
Regional Tourism:				
Revenue from local sources:				
Charges for services:				
Charges for tours	\$ 4,100	\$ 4,100	\$ 6,550	\$ 2,450
Other charges for services	4,500	4,500	5,969	1,469
Total charges for services	\$ 8,600	\$ 8,600	\$ 12,519	\$ 3,919
Miscellaneous revenue:				
Other miscellaneous	\$ 3,075	\$ 3,075	\$ 2,922	\$ (153)
Recovered costs:				
City of Buena Vista	\$ 33,590	\$ 33,590	\$ 33,590	\$ -
County of Rockbridge	348,014	348,014	348,014	-
Total recovered costs	\$ 381,604	\$ 381,604	\$ 381,604	\$ -
Total revenue from local sources	\$ 393,279	\$ 393,279	\$ 397,045	\$ 3,766
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from City of Lexington, Virginia	\$ 161,508	\$ 161,508	\$ 161,508	\$ -
Revenue from the Commonwealth:				
Categorical aid:				
Other categorical aid	\$ -	\$ -	\$ 1,727	\$ 1,727
Total Regional Tourism	\$ 554,787	\$ 554,787	\$ 560,280	\$ 5,493
Total Nonmajor Component Units	\$ 2,031,944	\$ 2,045,348	\$ 1,948,522	\$ (96,826)

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government:				
General Fund:				
General government administration:				
Legislative:				
City council	\$ 55,437	\$ 71,556	\$ 55,232	\$ 16,324
General and financial administration:				
City manager	\$ 175,267	\$ 190,267	\$ 185,549	\$ 4,718
Director of finance	276,743	274,093	249,102	24,991
City attorney	44,312	44,312	54,929	(10,617)
Commissioner of revenue	201,552	258,077	247,489	10,588
Assessment board	2,600	2,600	2,228	372
Treasurer	150,505	255,280	260,903	(5,623)
Human Resources	61,509	61,509	55,914	5,595
Information technology	130,935	130,935	130,114	821
Total general and financial administration	\$ 1,043,423	\$ 1,217,073	\$ 1,186,228	\$ 30,845
Board of elections:				
Electoral board and officials	\$ 55,367	\$ 55,367	\$ 55,298	\$ 69
Total general government administration	\$ 1,154,227	\$ 1,343,996	\$ 1,296,758	\$ 47,238
Judicial administration:				
Courts:				
Judicial services	\$ 165,400	\$ 165,400	\$ 162,506	\$ 2,894
VJCCA services	45,929	45,929	45,800	129
Total courts	\$ 211,329	\$ 211,329	\$ 208,306	\$ 3,023
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 1,464,936	\$ 1,481,188	\$ 1,411,594	\$ 69,594
Contributions to Central dispatch - component unit	186,112	186,112	162,408	23,704
Total law enforcement and traffic control	\$ 1,651,048	\$ 1,667,300	\$ 1,574,002	\$ 93,298
Fire and rescue services:				
Fire department	\$ 275,904	\$ 290,037	\$ 240,467	\$ 49,570
Rescue services	481,968	484,485	454,730	29,755
Rescue services - reserve activity	-	15,000	13,853	1,147
Total fire and rescue services	\$ 757,872	\$ 789,522	\$ 709,050	\$ 80,472
Correction and detention:				
Juvenile probation and detention	\$ 61,880	\$ 61,880	\$ 58,383	\$ 3,497
Special services	80,827	80,827	78,848	1,979
Total correction and detention	\$ 142,707	\$ 142,707	\$ 137,231	\$ 5,476
Total public safety	\$ 2,551,627	\$ 2,599,529	\$ 2,420,283	\$ 179,246

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 375,019	\$ 393,319	\$ 340,695	\$ 52,624
Public works labor pool	258,904	258,904	91,451	167,453
Equipment operations	185,972	185,972	215,229	(29,257)
Pavement Maintenance	211,924	240,883	235,971	4,912
Drain Maintenance	52,244	52,244	31,599	20,645
Snow Removal	71,820	71,820	22,409	49,411
Traffic	117,591	117,591	254,280	(136,689)
Emergency Need	2,502	2,502	-	2,502
Community activity support	43,225	46,280	48,070	(1,790)
Public works administration	170,497	170,497	145,583	24,914
Total maintenance of highways, streets, bridges & sidewalks	\$ 1,489,698	\$ 1,540,012	\$ 1,385,287	\$ 154,725
Sanitation and waste removal:				
Solid waste management	\$ 986,477	\$ 986,477	\$ 947,961	\$ 38,516
Maintenance of general buildings and grounds:				
General properties	\$ 95,613	\$ 95,613	\$ 109,451	\$ (13,838)
Park maintenance	183,633	187,920	191,132	(3,212)
Cemeteries maintenance	140,611	140,611	110,617	29,994
Total maintenance of general buildings and grounds	\$ 419,857	\$ 424,144	\$ 411,200	\$ 12,944
Total public works	\$ 2,896,032	\$ 2,950,633	\$ 2,744,448	\$ 206,185
Health and welfare:				
Health:				
Health and welfare	\$ 821,271	\$ 847,605	\$ 566,591	\$ 281,014
Youth services administration	65,630	65,630	61,687	3,943
Total health	\$ 886,901	\$ 913,235	\$ 628,278	\$ 284,957
Education:				
Other instructional costs:				
Contribution to City School Board - component unit	\$ 2,214,982	\$ 2,214,982	\$ 2,186,670	\$ 28,312
Parks, recreation, and cultural:				
Parks and recreation:				
Leisure services contributions	\$ 232,510	\$ 267,795	\$ 250,442	\$ 17,353
Municipal swimming pool	90,606	90,606	91,641	(1,035)
Indoor swimming pool	-	-	600,000	(600,000)
Contribution to RARO - component unit	89,659	89,659	80,972	8,687
Total parks and recreation	\$ 412,775	\$ 448,060	\$ 1,023,055	\$ (574,995)

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
General Fund: (Continued)				
Community development:				
Planning and community development:				
Planning and development	\$ 331,299	\$ 341,299	\$ 305,344	\$ 35,955
Housing program	6,600	85,790	59,046	26,744
Safe and sound	3,000	3,000	-	3,000
Tree board	35,485	36,085	33,779	2,306
Community development contributions	139,443	172,508	153,892	18,616
Water quality management	-	58,428	42,913	15,515
Contribution to regional tourism - component unit	161,508	161,508	161,508	-
Total planning and community development	\$ 677,335	\$ 858,618	\$ 756,482	\$ 102,136
Nondepartmental:				
Nondepartmental	\$ 216,888	\$ 206,768	\$ 192,983	\$ 13,785
Debt service:				
Principal retirement	\$ 999,949	\$ 999,949	\$ 999,949	\$ -
Interest and other fiscal charges	607,662	607,662	607,663	(1)
Total debt service	\$ 1,607,611	\$ 1,607,611	\$ 1,607,612	\$ (1)
Total General Fund	\$ 12,829,707	\$ 13,354,761	\$ 13,064,875	\$ 289,886
Capital Projects Fund:				
Judicial administration:				
Courts:				
Circuit court upgrade	\$ -	\$ 4,336,035	\$ 3,043,993	\$ 1,292,042
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Corridor improvements	\$ -	\$ 50,039	\$ -	\$ 50,039
Randolph street utility line	-	45,000	3,967	41,033
Miscellaneous access improvements	5,000	3,392	-	3,392
Downtown improvements	-	13,298	-	13,298
Rt. 11 bypass at N. Main street	-	35,584	702	34,882
New parking deck	-	5,048,307	3,519,004	1,529,303
Public works administration	-	254,327	254,326	1
Total maintenance of highways, streets, bridges and sidewalks	\$ 5,000	\$ 5,449,947	\$ 3,777,999	\$ 1,671,948
Total public works	\$ 5,000	\$ 5,449,947	\$ 3,777,999	\$ 1,671,948

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Primary Government: (Continued)				
Capital Projects Fund: (Continued)				
Parks, recreation, and cultural:				
Parks and recreation:				
Woods creek restoration	\$ 15,000	\$ -	\$ -	\$ -
Jordan's point park	40,000	321,981	102,673	219,308
Maury river pedestrian bridge	-	193,121	-	193,121
BH Parking	5,000	5,000	-	5,000
Total parks and recreation	<u>\$ 60,000</u>	<u>\$ 520,102</u>	<u>\$ 102,673</u>	<u>\$ 417,429</u>
Total Capital Projects Fund	<u>\$ 65,000</u>	<u>\$ 10,306,084</u>	<u>\$ 6,924,665</u>	<u>\$ 3,381,419</u>
Total Primary Government	<u>\$ 12,894,707</u>	<u>\$ 23,660,845</u>	<u>\$ 19,989,540</u>	<u>\$ 3,671,305</u>
Discretely Presented Component Units:				
Special revenue funds:				
Major Fund:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration, attendance, & health	<u>\$ 375,367</u>	<u>\$ 375,367</u>	<u>\$ 366,674</u>	<u>\$ 8,693</u>
Instruction costs:				
Classroom instruction	<u>\$ 4,826,799</u>	<u>\$ 4,968,849</u>	<u>\$ 4,673,714</u>	<u>\$ 295,135</u>
School food services:				
Administration of school food program	<u>\$ 162,072</u>	<u>\$ 162,072</u>	<u>\$ 161,396</u>	<u>\$ 676</u>
Operating costs:				
Operation and maintenance of school plant	<u>\$ 420,673</u>	<u>\$ 376,130</u>	<u>\$ 376,129</u>	<u>\$ 1</u>
Total education	<u>\$ 5,784,911</u>	<u>\$ 5,882,418</u>	<u>\$ 5,577,913</u>	<u>\$ 304,505</u>
Capital projects:				
Middle school	<u>\$ -</u>	<u>\$ 275,060</u>	<u>\$ 275,060</u>	<u>\$ -</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 5,784,911</u>	<u>\$ 6,157,478</u>	<u>\$ 5,852,973</u>	<u>\$ 304,505</u>
Nonmajor Funds:				
Central Dispatch Fund:				
Public safety:				
Law enforcement and traffic control:				
Central dispatch	<u>\$ 1,033,358</u>	<u>\$ 1,033,358</u>	<u>\$ 961,177</u>	<u>\$ 72,181</u>
Total Central Dispatch Fund	<u>\$ 1,033,358</u>	<u>\$ 1,033,358</u>	<u>\$ 961,177</u>	<u>\$ 72,181</u>

City of Lexington, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2008

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Units: (Continued)				
Special Revenue Funds: (Continued)				
Nonmajor Funds:				
Rockbridge Area Recreation Organization (RARO):				
Parks, recreation, and cultural:				
Parks and recreation:				
Administration	\$ 269,129	\$ 270,729	\$ 264,176	\$ 6,553
Programs	174,670	186,474	157,779	28,695
Total parks and recreation	<u>\$ 443,799</u>	<u>\$ 457,203</u>	<u>\$ 421,955</u>	<u>\$ 35,248</u>
Total Rockbridge Area Recreation Organization (RARO)	<u>\$ 443,799</u>	<u>\$ 457,203</u>	<u>\$ 421,955</u>	<u>\$ 35,248</u>
Regional Tourism:				
Community development:				
Planning and community development:				
Tourism	\$ 554,787	\$ 554,787	\$ 450,435	\$ 104,352
Total Regional Tourism	<u>\$ 554,787</u>	<u>\$ 554,787</u>	<u>\$ 450,435</u>	<u>\$ 104,352</u>
Total Nonmajor Component Units	<u>\$ 2,031,944</u>	<u>\$ 2,045,348</u>	<u>\$ 1,833,567</u>	<u>\$ 211,781</u>

OTHER STATISTICAL INFORMATION SECTION

Table 1

City of Lexington, Virginia
 Net Assets by Component
 Last Six Fiscal Years (1)
 (accrual basis of accounting)
 (amounts expressed in thousands)

	2003	2004	2005	2006	2007	2008
Governmental activities						
Invested in capital assets, net of related debt	\$ 3,696	\$ 2,164	\$ 6,443	\$ (4,091)	\$ 9,404	\$ 11,611
Restricted	1,272	1,322	1,404	1,394	1,522	1,434
Unrestricted	7,629	6,930	7,101	18,925	7,113	4,219
Total governmental activities net assets	<u>\$ 12,597</u>	<u>\$ 10,416</u>	<u>\$ 14,948</u>	<u>\$ 16,228</u>	<u>\$ 18,039</u>	<u>\$ 17,264</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 694	\$ 963	\$ 1,247	\$ 1,332	\$ 1,635	\$ 1,812
Unrestricted	2,054	1,542	1,188	954	546	561
Total business-type activities	<u>\$ 2,748</u>	<u>\$ 2,505</u>	<u>\$ 2,435</u>	<u>\$ 2,286</u>	<u>\$ 2,181</u>	<u>\$ 2,373</u>
Primary Government						
Invested in capital assets, net of related debt	\$ 4,390	\$ 3,127	\$ 7,690	\$ (2,759)	\$ 11,039	\$ 13,423
Restricted for perpetual care	1,272	1,322	1,404	1,394	1,522	1,434
Unrestricted	9,683	8,472	8,289	19,879	7,659	4,780
Total primary government net assets	<u>\$ 15,345</u>	<u>\$ 12,921</u>	<u>\$ 17,383</u>	<u>\$ 18,514</u>	<u>\$ 20,220</u>	<u>\$ 19,637</u>

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

City of Lexington, Virginia
Changes in Net Assets
Last Six Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government administration	\$ 863	\$ 1,114	\$ 929	\$ 1,036	\$ 1,121	\$ 1,299
Judicial administration	105	433	474	551	1,281	3,252
Public Safety	1,677	1,863	2,082	2,151	2,178	2,425
Public Works	2,256	2,036	2,468	2,793	2,362	3,005
Health and welfare	495	749	746	654	569	628
Education	1,844	2,066	1,758	1,806	1,893	2,187
Parks, recreation and cultural	463	401	468	529	518	672
Community development	492	518	541	558	811	759
Non-departmental	218	188	156	38	-	-
Interest on long-term debt	5	6	3	383	725	615
Total governmental activities expenses	\$ 8,418	\$ 9,374	\$ 9,625	\$ 10,499	\$ 11,458	\$ 14,842
Business-type activities:						
Water & Sewer	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478
Total business-type activities	\$ 3,623	\$ 3,730	\$ 4,119	\$ 4,348	\$ 4,311	\$ 4,478
Total primary government expenses	\$ 12,041	\$ 13,104	\$ 13,744	\$ 14,847	\$ 15,769	\$ 19,320
Program Revenues						
Governmental activities:						
Charges for services:						
General government administration	\$ -	\$ 312	\$ 47	\$ 51	\$ 60	\$ 52
Judicial administration	46	-	61	60	-	106
Public Safety	182	164	388	318	274	386
Public Works	376	272	322	375	407	349
Health and welfare	2	2	2	2	3	3
Parks, recreation and cultural	219	123	67	73	84	93
Community development	-	3	-	-	1	2
Operating grants and contributions	1,020	1,264	1,327	1,269	1,332	1,327
Capital grants and contributions	177	-	15	44	136	100
Total governmental activities program revenues	\$ 2,022	\$ 2,140	\$ 2,229	\$ 2,192	\$ 2,297	\$ 2,418
Business-type activities:						
Charges for services:						
Water & Sewer	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669
Total business-type activities program revenues	\$ 3,415	\$ 3,473	\$ 4,049	\$ 4,212	\$ 4,206	\$ 4,669
Total primary government program revenues	\$ 5,437	\$ 5,613	\$ 6,278	\$ 6,404	\$ 6,503	\$ 7,087
Net (expense)/revenue:						
Governmental activities	\$ (6,396)	\$ (7,234)	\$ (7,396)	\$ (8,307)	\$ (9,161)	\$ (12,424)
Business-type activities	(208)	(257)	(70)	(136)	(105)	191
Total primary government net expense	\$ (6,604)	\$ (7,491)	\$ (7,466)	\$ (8,443)	\$ (9,266)	\$ (12,233)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes:						
Property taxes	\$ 3,079	\$ 3,048	\$ 3,085	\$ 3,922	\$ 3,990	\$ 4,141
Local sales and use taxes	641	661	646	710	749	795
Taxes on recordation and wills	39	46	67	70	75	61
Motor vehicle licenses taxes	65	65	65	65	64	65
Consumer utility taxes	508	515	520	504	399	310
Business licenses taxes	425	473	488	528	552	608

City of Lexington, Virginia
Changes in Net Assets
Last Six Fiscal Years (1)
(accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
General Revenues and Other Changes in Net Assets (Continued)						
Governmental activities: (Continued)						
Taxes: (Continued)						
Restaurant food taxes	\$ 496	\$ 542	\$ 553	\$ 551	\$ 580	\$ 597
Hotel and motel room taxes	103	109	175	188	203	207
Communications taxes	-	-	-	-	158	369
Other local taxes	195	180	180	195	135	66
Unrestricted grants and contributions	579	604	554	590	613	638
Unrestricted revenues from use of money and property	290	130	416	684	1,204	797
Miscellaneous	1,362	1,683	1,451	1,568	1,999	2,995
Transfers	-	-	-	12	-	-
Total governmental activities	\$ 7,782	\$ 8,056	\$ 8,200	\$ 9,587	\$ 10,721	\$ 11,649
Business-type activities:						
Miscellaneous	\$ 15	\$ 13	\$ -	\$ -	\$ -	\$ -
Transfers	-	-	-	(12)	-	-
Total business-type activities	\$ 15	\$ 13	\$ -	\$ (12)	\$ -	\$ -
Total primary government	\$ 7,797	\$ 8,069	\$ 8,200	\$ 9,575	\$ 10,721	\$ 11,649
Change in Net Assets						
Governmental activities	\$ 1,387	\$ 822	\$ 804	\$ 1,280	\$ 1,560	\$ (775)
Business-type activities	(193)	(244)	(70)	(148)	(105)	191
Total primary government	\$ 1,194	\$ 578	\$ 734	\$ 1,132	\$ 1,455	\$ (584)

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

Table 3

City of Lexington, Virginia
Governmental Activities Tax Revenues by Source
Last Six Fiscal Years (1)
(modified accrual basis of accounting)

Fiscal Year	Property Tax	Local Sales and Use Tax	Consumer Utility Tax (2)	Business License Tax	Communications Sales and Use Tax (2)	Motor Vehicle License Tax	Bank Stock Tax	Recordation and Wills Tax	Hotel & Motel Room Tax	Restaurant Food Tax	Other Local Tax (2) (3)	Total
2007-08	\$ 4,144,128	\$ 794,444	\$ 310,248	\$ 607,520	\$ 368,921	\$ 65,470	\$ 39,413	\$ 61,427	\$ 207,005	\$ 596,602	\$ 27,416	\$ 7,222,594
2006-07	3,914,166	749,153	398,743	552,145	158,198	63,592	50,363	74,877	202,549	580,080	84,681	6,828,547
2005-06	3,337,123	710,095	503,772	527,575	-	64,867	76,839	70,330	187,805	551,363	117,427	6,147,196
2004-05	3,125,624	646,198	519,509	488,447	-	65,320	55,932	67,102	174,923	552,946	123,657	5,819,658
2003-04	3,112,731	661,378	515,744	472,684	-	64,983	49,275	45,628	109,141	541,988	130,481	5,704,033
2002-03	2,907,527	641,128	508,035	424,693	-	64,687	56,395	39,058	103,186	496,443	138,315	5,379,467

(1) Accrual basis financial information is available back to fiscal year 2003 when the city implemented GASB 34.

(2) The state began a 5% communications sales and use tax on January 1, 2007. Telephone utility taxes, local E-911 taxes, and cable television system franchise fees are collected thru December 31, 2006 and will no longer be a local tax. The state collects the new local tax and redistributes .076958% of the total collections based on a pre-certified calculation of each jurisdiction's allocation percentage as reported to the State Auditor of Public Accounts for revenue collections for the fiscal year ended June 30, 2006.

(3) Beginning 2007-08, this consists only of the business consumption tax revenue.

Table 4

City of Lexington, Virginia
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General Fund										
Reserved	\$ 22,333	\$ 24,637	\$ 28,739	\$ 38,104	\$ 30,339	\$ -	\$ 35,900	\$ 35,900	\$ -	\$ -
Unreserved	3,486,508	2,955,328	3,380,481	5,638,868	5,893,300	5,805,400	6,902,072	7,488,971	8,573,394	8,690,276
Total general fund	\$ 3,508,841	\$ 2,979,965	\$ 3,409,220	\$ 5,676,972	\$ 5,923,639	\$ 5,805,400	\$ 6,937,972	\$ 7,524,871	\$ 8,573,394	\$ 8,690,276
All other governmental funds										
Reserved, reported in:										
Permanent Fund	\$ 1,327,333	\$ 1,388,989	\$ 1,342,624	\$ 1,242,095	\$ 1,272,000	\$ 1,321,765	\$ 1,404,436	\$ 1,394,353	\$ 1,521,393	\$ 1,434,253
Capital Projects	331,852	513,852	359,000	511,000	-	-	-	-	-	-
Special revenues	4,396	3,242	1,602	3,434	342,932	183,400	-	-	-	-
Unreserved, reported in:										
Capital Projects	786,490	1,671,331	1,731,038	1,512,301	306,616	269,430	254,488	10,890,018	8,912,026	3,033,371
Special revenues	1,864	(436)	1,204	(628)	2,387	1,897	-	-	-	-
Total all other governmental funds	\$ 2,451,935	\$ 3,576,978	\$ 3,435,468	\$ 3,268,202	\$ 1,923,935	\$ 1,776,492	\$ 1,658,924	\$ 12,284,371	\$ 10,433,419	\$ 4,467,624

Table 5

City of Lexington, Virginia
Changes in Fund Balances of Governmental Funds
Last Six Fiscal Years (1)
(modified accrual basis of accounting)
(amounts expressed in thousands)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Revenues						
General property taxes	\$ 2,908	\$ 3,113	\$ 3,126	\$ 3,337	\$ 3,914	\$ 4,144
Other local taxes	2,472	2,591	2,694	2,810	2,914	3,078
Licenses and permits	30	50	145	56	180	108
Fines and forfeitures	97	82	105	94	104	106
Use of money & property	291	130	415	684	1,204	797
Charges for services	415	548	637	729	829	777
Miscellaneous	1,363	1,529	1,451	1,568	1,999	2,995
Recovered costs	281	121	158	207	208	255
Intergovernmental	1,776	1,867	1,896	1,903	2,082	2,065
Total revenues	\$ 9,633	\$ 10,031	\$ 10,627	\$ 11,388	\$ 13,434	\$ 14,325
Expenditures						
General government administration	\$ 857	\$ 865	\$ 901	\$ 1,000	\$ 1,025	\$ 1,141
Judicial administration	56	433	474	551	1,385	3,231
Public safety	1,662	1,905	2,100	3,049	2,340	2,377
Public works	2,132	2,271	2,583	2,738	2,140	2,604
Health and Welfare	497	749	745	653	569	628
Parks, recreation and cultural	420	372	474	516	487	1,484
Community development	491	515	537	575	768	1,357
Education	1,844	2,066	1,758	1,806	1,893	757
Nondepartmental	5	4	3	38	36	193
Capital outlay(2)	1,544	63	-	313	2,164	4,794
Debt service:						
Principal	669	716	668	697	748	1,000
Interest	218	195	167	390	681	608
Total Expenditures	\$ 10,395	\$ 10,154	\$ 10,410	\$ 12,326	\$ 14,236	\$ 20,174
Excess of revenues over (under) expenditures	\$ (762)	\$ (123)	\$ 217	\$ (938)	\$ (802)	\$ (5,849)
Other financing sources (uses)						
Transfers in	\$ 397	\$ 742	\$ 758	\$ 11,457	\$ 399	\$ 970
Transfers out	(397)	(742)	(758)	(11,445)	(399)	(970)
Bonds issued	385	-	-	12,000	-	-
Payments to refunded bond escrow agent	(385)	-	-	-	-	-
Sale of capital assets	-	72	-	138	-	-
Total other financing sources (uses)	\$ -	\$ 72	\$ -	\$ 12,150	\$ -	\$ -
Net change in fund balances	\$ (762)	\$ (51)	\$ 217	\$ 11,212	\$ (802)	\$ (5,849)
Debt service as a percentage of noncapital expenditures	10.0%	9.0%	8.0%	9.0%	11.8%	10.5%

(1) Information available for six years only.

(2) Capital outlay has been reclassified as a separate item for calculation of debt service as a percentage of noncapital expenditures.

Table 6

City of Lexington, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety (2)	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural (2)	Community Development (2)	Capital Outlay and Non-departmental	Debt Service	Total
2007-08	\$ 1,296,758	\$ 3,230,809	\$ 3,219,052	\$ 6,496,448	\$ 628,278	\$ 5,852,973	\$ 1,698,457	\$ 1,045,409	\$ 192,983	\$ 1,607,612	\$ 25,268,779
2006-07	1,040,800	1,384,967	3,691,711	3,713,453	569,253	5,403,947	913,248	1,069,282	35,975	1,429,796	19,252,432
2005-06	999,578	550,742	3,779,809	2,738,068	653,409	5,463,824	726,170	966,198	350,996	1,086,882	17,315,676
2004-05	900,640	474,092	2,782,569	2,583,410	745,121	5,334,003	677,883	914,091	38,249	833,905	15,283,963
2003-04	864,517	433,481	2,498,341	2,270,840	749,376	4,770,134	576,094	867,093	120,046	911,018	14,060,940
2002-03	856,719	55,920	2,304,799	2,131,821	496,689	4,500,186	686,484	971,405	1,677,516	887,544	14,569,083
2001-02	809,057	58,260	2,259,183	2,009,110	412,206	4,453,840	719,221	1,077,661	3,411,865	780,759	15,991,162
2000-01	783,726	70,140	2,162,307	1,951,446	442,933	4,399,047	646,922	1,269,571	605,542	535,707	12,867,341
1999-00	730,000	65,060	1,994,830	1,915,118	480,104	4,223,871	576,399	1,044,158	746,578	529,024	12,305,142
1998-99	670,939	61,348	1,854,198	1,809,759	519,958	3,876,979	546,693	892,191	1,209,208	520,027	11,961,300

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contribution from Primary Government to Discretely Presented Component Units.

Table 7

City of Lexington, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2007-08	\$ 4,144,128	\$ 3,078,466	\$ 108,095	\$ 106,274	\$ 803,145	\$ 1,133,526	\$ 3,022,196	\$ 1,492,906	\$ 5,514,358	\$ 19,403,094
2006-07	3,914,166	2,914,381	180,066	103,998	1,210,016	1,105,553	2,026,288	1,667,106	5,528,163	18,649,737
2005-06	3,337,123	2,810,073	56,033	93,712	693,539	955,631	1,582,795	1,368,560	5,551,689	16,449,155
2004-05	3,125,624	2,694,034	144,572	105,092	418,290	853,983	1,458,544	1,301,229	5,378,683	15,480,051
2003-04	3,112,731	2,591,302	49,637	82,184	131,132	763,937	1,542,882	1,178,062	4,485,771	13,937,638
2002-03	2,907,527	2,471,940	30,455	96,673	297,584	1,277,160	1,465,768	904,179	4,391,787	13,843,073
2001-02	2,981,508	2,454,349	216,269	97,910	426,194	1,215,547	1,365,523	910,291	4,304,518	13,972,109
2000-01	2,589,111	2,356,821	107,839	109,986	607,596	1,203,141	1,254,661	911,183	4,376,761	13,517,099
1999-00	3,042,259	2,285,413	33,463	111,443	532,152	962,116	1,078,434	807,568	3,945,483	12,798,331
1998-99	2,880,526	2,028,363	93,272	75,522	546,426	763,965	1,004,772	1,074,295	3,828,241	12,295,382

(1) Includes General, Capital Projects and Permanent funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contributions from Primary Government to Discretely Presented Component Units.

Table 8

City of Lexington, Virginia
Assessed Value and Estimated Actual Value of Taxable Property
Last Three Fiscal Years (1)
(in thousands of dollars)

Fiscal Year Ended June 30,	Real Property		Personal Property		Less: Tax Exempt Real Property	Total Taxable Assessed Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a percentage of Actual Value
	Residential Property	Commercial Property	Motor Vehicles	Other					
2008	\$ 484,024	\$ 650,337	\$ 31,689	\$ 4,774	\$ 531,915	\$ 638,909	\$ 7.907	\$ 1,170,824	54.57%
2007	471,783	648,314	30,109	3,610	534,495	619,321	7.456	1,153,816	53.68%
2006	317,356	553,584	30,084	3,927	460,071	444,880	9.204	904,951	49.16%

(1) City began recording this information in 2006.

Source: Commissioner of Revenue

Table 9

City of Lexington, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2007-08	\$ 0.60	\$ 3.95	\$ 0.60	\$ 3.95	\$ 0.58	\$ 3.95
2006-07	0.56	3.95	0.56	3.95	0.62	3.95
2005-06	0.67	3.95	0.67	3.95	0.66	3.95
2004-05	0.64	3.95	0.64	3.95	0.64	3.95
2003-04	0.64	3.95	0.64	3.95	0.69	3.95
2002-03	0.73	3.95	0.73	3.95	0.72	3.95
2001-02	0.70	3.95	0.70	3.95	0.69	3.95
2000-01	0.67	3.95	0.67	3.95	0.71	3.95
1999-00	0.74	3.95	0.74	3.95	0.73	3.95
1998-99	0.72	3.95	0.72	3.95	0.71	3.95

(1) Per \$100 of assessed value.

Source: Commissioner of Revenue

Table 10

City of Lexington, Virginia
Principal Taxpayers
June 30, 2008

Taxpayer Name	Fiscal year ended June 30, 2008			Fiscal year ended June 30, 1999		
	Assessed Valuation	Rank	Percent of Total Assessed Valuation (1)	Assessed Valuation	Rank	Percent of Total Assessed Valuation (2)
Central Telephone of Virginia	\$ 6,984,559	1	1.16%	\$ 7,468,247	1	2.65%
HI of Lexington, LLC	5,978,300	2	0.99%	2,872,900	3	1.02%
Washington and Lee University	5,230,700	3	0.87%	2,371,300	6	0.84%
Virginia Electric and Power Company	4,346,857	4	0.72%	3,437,522	2	1.22%
Walker/Wood LC & Woods Family Trust	4,334,300	5	0.72%	1,932,900	9	0.69%
Lexington House Associates	4,180,200	6	0.69%	2,266,100	7	0.80%
HCMF XXII LTD Partnership	3,428,200	7	0.57%	-		
Rockbridge Square Associates	3,376,200	8	0.56%	2,665,700	4	0.95%
Kroger Partnership	3,330,700	9	0.55%	-		
Summit Square Partners	3,084,300	10	0.51%	-		
Eschbach Trust				2,424,500	5	0.86%
Laura and William Stearns				1,987,800	8	0.71%
IRT Property Company				1,762,500	10	0.63%
	\$ 44,274,316		7.33%	\$ 29,189,469		10.36%

(1) Total assessed valuation of real estate was \$604,269,835 as of June 30, 2008.

(2) Total assessed valuation of real estate was \$281,712,876 as of June 30, 1999.

Source: Commissioner of Revenue and Finance Department

Table 11

City of Lexington, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 3)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1,4)	Percent of Delinquent Taxes to Tax Levy
2007-08	\$ 4,822,549	\$ 4,669,876	96.83%	\$ 63,178	\$ 4,733,054	98.14%	\$ 734,963	15.24%
2006-07	4,434,075	4,398,602	99.20%	72,851	4,471,453	100.84%	662,871	14.95%
2005-06	3,936,642	3,780,352	96.03%	74,758	3,855,110	97.93%	568,484	14.44%
2004-05	3,787,838	3,563,524	94.08%	66,926	3,630,450	95.84%	458,027	12.09%
2003-04	3,661,319	3,557,033	97.15%	66,737	3,623,770	98.97%	543,329	14.84%
2002-03	3,542,094	3,354,320	94.70%	50,628	3,404,948	96.13%	587,249	16.58%
2001-02	3,386,498	3,318,634	98.00%	74,204	3,392,838	100.19%	590,489	17.44%
2000-01	3,261,815	3,051,139	93.54%	61,026	3,112,165	95.41%	406,996	12.48%
1999-00	3,231,767	2,895,422	89.59%	114,073	3,009,495	93.12%	443,602	13.73%
1998-99	2,805,631	2,744,460	97.82%	102,575	2,847,035	101.48%	536,451	19.12%

(1) Exclusive of penalties and interest.

(2) 1999-00 was the first year for personal property tax relief by the Commonwealth of Virginia.

(3) Includes original levy for 2004 real estate taxes collected on a fiscal year basis and 2005 personal property taxes collected on a calendar year basis. Also, includes supplemental levies for all tax years.

(4) Includes personal property taxes in excess of five years delinquent. Also, includes an allowance for doubtful accounts.

Source: Commissioner of Revenue and Treasurer.

Table 12

City of Lexington, Virginia
Ratios of Outstanding Debt by Type
Last Three Fiscal Years (1)

Fiscal Year	Governmental Activities		Business-Type Activities	Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	State Literary Fund Loan	General Obligation Bonds			
2008	\$ 13,322,292	\$ -	\$ 42,806	\$ 13,365,098	1.35%	\$ 1,841
2007	14,317,241	5,000	221,411	14,543,652	1.57%	2,158
2006	15,060,606	10,000	395,038	15,465,644	1.72%	2,282

(1) City began recording this information in 2006.

Table 13

City of Lexington, Virginia
Ratio of Net General Bonded Debt to
Assessed Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Less: Debt Payable from Enterprise Fund	Net Bonded Debt (4)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita(5)
2007-08	-	\$ 638,909	\$ 13,365,098	\$ 42,806	\$ 13,322,292	2.090%	\$ 1,835
2006-07	7,261	619,321	14,543,660	221,411	14,322,249	2.310%	1,972
2005-06	7,206	444,880	15,465,644	395,038	15,070,606	3.390%	2,091
2004-05	7,097	445,471	4,326,780	559,080	3,767,700	0.850%	531
2003-04	6,900	437,827	5,152,857	717,546	4,435,311	1.010%	643
2002-03	6,800	369,743	5,919,583	870,515	5,049,068	1.370%	743
2001-02	7,000	365,181	6,617,313	982,102	5,635,211	1.540%	805
2000-01	7,000	360,793	3,180,002	1,118,904	2,061,098	0.570%	294
1999-00	6,867	318,034	3,605,000	1,253,366	2,351,634	0.740%	342
1998-99	7,000	306,012	4,000,000	1,379,018	2,620,982	0.860%	374

(1) Center for Public Service at the University of Virginia. www.coopercenter.org, Current year population not yet available.

(2) Real property assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans. Excludes compensated absences.

(4) FY 2005-06, City issued \$12,000,000 in general obligation debt to fund the city's share of costs for a new regional circuit court complex and parking deck.

Table 14

City of Lexington, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded
Debt to Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures (2)	Ratio of Debt Service to General Governmental Expenditures
2007-08	\$ 999,949	\$ 607,663	\$ 1,607,612	\$ 25,268,779	6.4%
2006-07	748,365	681,431	1,429,796	19,252,432	7.4%
2005-06	697,094	389,788	1,086,882	17,315,676	6.3%
2004-05	667,609	166,296	833,905	15,283,963	5.5%
2003-04	716,358	194,660	911,018	14,060,940	6.5%
2002-03	668,747	230,284	899,031	14,569,083	6.2%
2001-02	563,883	216,875	780,758	15,991,162	4.9%
2000-01	399,536	136,171	535,707	12,867,341	4.2%
1999-00	378,348	150,676	529,024	12,305,142	4.3%
1998-99	356,128	163,898	520,026	11,961,300	4.3%

(1) Includes General, Special Revenue, Capital Projects funds of the Primary Government and Special Revenue funds of the Discretely Presented Component Units.

(2) Information from Table 6.

Table 15

City of Lexington, Virginia
Computation of Legal Debt Margin
June 30, 2008
(amounts expressed in thousands)

	Fiscal Year									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Debt limit	\$ 28,171	\$ 28,452	\$ 32,962	\$ 33,357	\$ 33,691	\$ 40,499	\$ 41,093	\$ 41,087	\$ 58,560	\$ 60,245
Total net debt applicable to limit	4,512	4,008	3,474	6,803	6,022	5,153	4,327	15,466	14,544	13,370
Legal debt margin	23,659	24,444	29,488	26,554	27,669	35,346	36,766	25,621	44,016	46,875
Total net debt applicable to the limit as a percentage of debt limit	16.0%	14.1%	10.5%	20.4%	17.9%	12.7%	10.5%	37.6%	24.8%	22.2%
Legal Debt Margin Calculated for Fiscal Year 2007										
Assessed value									\$	602,446
Debt limit (10% of assessed value)									\$	60,245
Debt applicable to limit:										
General Obligation Bonds										13,370
Less: amount set aside for repayment of general obligation debt										-
Total net applicable to limit										13,370
Legal debt margin									\$	46,875

Table 16

**City of Lexington, Virginia
Demographic and Economic Statistics
Last Ten Fiscal Years**

Fiscal Year	Population (1)	Personal Income (amounts expressed in thousands)(2)	Per Capita Personal Income (2)	School Enrollment (3)	Unemployment Rate (4)
2007-08	- (5)	\$ - (5)	\$ - (5)	615	8.3%
2006-07	7,261	- (5)	- (5)	646	5.4%
2005-06	7,206	988,969	28,442	626	5.0%
2004-05	7,097	927,803	26,936	626	5.0%
2003-04	6,900	891,371	26,165	626	2.4%
2002-03	6,800	839,032	23,612	647	2.6%
2001-02	7,000	800,258	23,383	631	2.2%
2000-01	7,000	773,603	22,547	628	2.1%
1999-00	6,867	741,220	21,770	633	1.6%
1998-99	7,000	- (5)	20,427	628	2.0%

(1) Center for public service at the University of Virginia. www.coopercenter.org

(2) Bureau of Economic Analysis, United States Department of Commerce, City of Lexington, City of Buena Vista and Rockbridge County combined. [Www.bea.gov/regional/bearfacts](http://www.bea.gov/regional/bearfacts)

(3) Lexington City Schools.

(4) Virginia Employment Commission.

(5) Information unavailable.

Table 17

City of Lexington, Virginia
Principal Employers
Current Year and Nine Years Ago

Employer	Fiscal year ended June 30, 2008			Fiscal year ended June 30, 1999		
	Employment Range	Rank	% of Total City Employees (1)	Employment Range	Rank	% of Total City Employees
Washington & Lee University	1000-1499	1	21.7%	500-999	1	17.3%
Virginia Military Institute	500-999	2	11.2%	500-999	2	10.9%
Stonewall Jackson Hospital	250-499	3	5.3%	250-499	3	7.5%
Rockbridge County	100-249	4	3.5%	100-249	4	3.8%
City of Lexington	100-249	5	3.3%	100-249	5	3.1%
Lexington City Schools	50-99	6	1.7%	50-99	7	2.0%
Kroger Company	50-99	7	1.6%			
Rockbridge Farmers' Co-op	50-99	8	1.3%	50-99	10	1.2%
The VMI Foundation	50-99	9	1.1%			
Heritage Hall Health Care (HCMF)	50-99	10	1.0%	50-99	9	1.4%
Rockbridge Area Community Services Board				100-249	6	2.6%
Harris Teeter Supermarket				50-99	8	1.4%
Totals	<u>2,656</u>		<u>51.6%</u>	<u>2,411</u>		<u>51.3%</u>
Total City Employment	<u>5,148</u>			<u>4,696</u>		

Source: Virginia Employment Commission, Virginia Electronic Market Access (VELMA).

Table 18

City of Lexington, Virginia
Full-time Equivalent City Government Employees by Function
Last Ten Fiscal Years

Function	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government	13	13	14	14	13	13	14	14	14	14
Public safety										
Police										
Officers	15	15	15	15	15	15	15	15	15	16
Civilians	2	2	2	2	2	2	2	2	2	2
Parking enforcement/ animal control	1	1	1	1	1	1	1	1	1	1
Public works										
Administration & maintenance	33	33	33	33	34	34	35	36	36	36
Solid waste management	11	11	11	11	11	11	11	11	11	11
Health, Education & Welfare	2	2	2	2	2	2	2	2	2	2
Community development	10	10	4	5	5	5	5	5	5	5
Utilities processing										
Water treatment	6	6	6	6	6	6	7	7	7	7
Wastewater treatment	9	9	9	9	9	9	9	10	10	10
Total	102	102	97	98	98	98	101	103	103	104

Source: Government finance department

Table 19

City of Lexington, Virginia
Operating Indicators by Function
Last Three Fiscal Years (1)

Function	Fiscal Year		
	2006	2007	2008
General administration			
Business licenses issued	653	669	662
Public safety			
Police			
Number of calls answered	5,568	6,163	4,580
Physical arrests	247	350	346
Parking violations	2,036	1,818	1,217
Traffic violations	953	1,191	923
Miles Patrolled	165,332	166,629	125,240
Fire			
Number of calls answered	524	629	732
Inspections	83	123	138
Public works			
Highways and streets			
Street resurfacing (miles)	2	1	2
Potholes repaired	300	310	300
Sanitation and waste removal			
Refuse collected (tons/day)	11	11	14
Recyclables collected (tons/day)	5	4	6
Culture and recreation			
Athletic program Participants	1,356	1,618	1,536
Utilities processing			
Water			
New connections	8	12	8
Water main breaks	34	42	46
Average daily consumption (thousands of gallons)	898	889	921
Number of customers	2,716	2,698	2,702
Wastewater			
Average daily sewage treatment (thousands of gallons)	677	764	583
Community development			
Number of building permits	84	87	98
Building construction value (thousands)	4,032	30,914	18,520
Component unit - school board			
Education			
Students - elementary	287	313	310
Students - middle school	182	179	180
City students - joint high school	157	154	125
Teachers elementary & middle school	56	50	50
Expenditures per pupil	3,609	3,708	4,300

Source: Various city departments

(1) The city began compiling this information in 2006.

Note: Indicators are not available for the judicial administration and leisure services functions.

Table 20

City of Lexington, Virginia
Capital Asset Statistics by Function
Last Three Fiscal Years (1)

Function	Fiscal Year		
	2006	2007	2008
Public safety			
Police			
Stations	1	1	1
Patrol units	10	12	12
Fire			
Stations	1	1	1
First aid building	1	1	1
Public works			
Highways and streets			
Streets (miles)	60	60	60
Streetlights	516	527	527
Traffic signal intersections	12	12	12
Traffic signal lights	98	98	98
Cemeteries Maintenance			
Cemeteries	2	2	2
Sanitation and waste removal			
Collection trucks	5	5	5
Health, education and welfare			
Hospitals	1	1	1
Number of hospital beds	38	38	38
Leisure services			
Parks acreage	37	37	37
Parks	8	8	8
Swimming Pools	1	1	2
Community centers	1	1	1
Utilities processing			
Water			
Water mains (miles)	30	30	30
Fire hydrants	266	268	268
Maximum daily capacity (thousands of gallons)	4,000	4,000	4,000
Sewer			
Sanitary sewers (miles)	40	40	40
Storm sewers (miles)	5	5	5
Maximum daily treatment capacity (thousands of gallons)	3,000	3,000	3,000
Component unit - school board			
Education			
Elementary schools	1	1	1
Middle schools	1	1	1
Jointly operated high school	1	1	1

Source: Various city departments

(1) The city began compiling this information in 2006.

Note: Indicators are not available for the general government, judicial administration and community development functions.

Table 21

City of Lexington, Virginia
Schedule of Joint Services Contract Billing
For the Year Ended June 30, 2008

	Volunteer Fire	Life Saving and First Aid	RARO Administration	Youth Basketball	Little League Football	Baseball and Softball	Youth Soccer	Other	RARO Total	Totals
Salaries and fringe benefits	\$ 29,507	\$ 39,609	\$ 224,226	\$ 8,930	\$ 5,246	\$ 7,332	\$ 3,066	\$ 1,947	\$ 250,747	\$ 319,863
Contractual services	48,170	304,499	6,751	-	-	-	-	-	6,751	359,420
Other expenses	69,741	69,674	35,199	1,480	3,131	10,266	3,480	908	54,464	193,879
Totals	\$ 147,418	\$ 413,782	\$ 266,176	\$ 10,410	\$ 8,377	\$ 17,598	\$ 6,546	\$ 2,855	\$ 311,962	\$ 873,162
Less: Revenue for Operations	\$ -	\$ (263,369)	\$ (10,027)	\$ (5,295)	\$ (4,305)	\$ (9,910)	\$ (4,930)	\$ (2,975)	\$ (37,442)	\$ (300,811)
Net Expenses	\$ 147,418	\$ 150,413	\$ 256,149	\$ 5,115	\$ 4,072	\$ 7,688	\$ 1,616	\$ (120)	\$ 274,520	\$ 572,351
Rockbridge County participation	73.77%	73.77%	70.25%	69.85%	87.18%	71.01%	67.57%	57.50%	70.50%	72.20%
Rockbridge County share	\$ 108,750	\$ 110,960	\$ 179,945	\$ 3,573	\$ 3,550	\$ 5,459	\$ 1,092	\$ (69)	\$ 193,550	\$ 413,260

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE HONORABLE MEMBERS OF CITY COUNCIL CITY OF LEXINGTON, VIRGINIA

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lexington, Virginia, as of and for the year ended June 30, 2008, which collectively comprise the City of Lexington, Virginia's basic financial statements and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the Specifications for Audits of Counties, Cities, and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Lexington, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Lexington, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Lexington, Virginia's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Lexington, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties.

Robinson, Farmer, Cox Associates

Christiansburg, Virginia

October 20, 2008